ARCO

1993 Annual Report



PNYC 00012898

HIGHLIGHTS

Millions of dollars, except per share amounts	1993	1992	1991	1990	1989
FINANCIAL					
Total revenues	$19,183	$19,248	$18,956	$19,924	$16,843
Net income	$ 269	$ 801	$ 709	$ 2,011	$ 1,953
Net income per share	$ 1.66	$ 4.96	$ 4.39	$ 12.15	$ 11.26
Dividends	$ 879	$ 873	$ 872	$ 810	$ 760
Dividends per share of common stock	$ 5.50	$ 5.50	$ 5.50	$ 5.00	$ 4.50
Additions to fixed assets	$ 2,070	$ 2,278	$ 3,239	$ 2,718	$ 2,105
Total assets	$23,894	$24,256	$24,492	$23,864	$22,261
Return on stockholders' equity — percent	4.2	17.6	10.1	24.6	30.5
Return on capital employed — percent	5.1	11.4	8.7	16.2	18.9
RESERVES					
Petroleum liquids — million barrels:					
Domestic	2,259	2,517	2,642	2,720	2,765
Foreign	206	211	189	210	257
Natural gas — billion cubic feet:					
Domestic	4,725	5,185	5,798	6,256	6,452
Foreign	3,280	3,117	2,405	1,796	1,206
Coal — million tons recoverable:					
Domestic	1,296	1,236	876	854	869
Foreign	214	232	242	411	321
OPERATIONS					
Oil and Gas production — net					
Liquids — barrels per day:					
Domestic	604,700	660,500	668,500	638,300	660,000
Foreign	79,700	77,700	75,700	67,100	70,100
Natural gas — million cubic feet per day:					
Domestic	911	1,202	1,399	1,554	1,529
Foreign	321	240	261	193	169
Coal shipments — thousand tons:					
Domestic	37,499	30,634	32,598	29,437	31,114
Foreign	10,246	9,158	8,961	8,819	8,333
Refining and Marketing — barrels per day:					
Refinery crude runs	425,800	425,100	404,900	398,600	400,900
Petroleum product sales (domestic)	481,500	479,500	466,400	444,000	435,500
Chemical sales — millions of pounds					
Propylene oxide and derivatives	3,356	3,055	2,729	2,563	2,586

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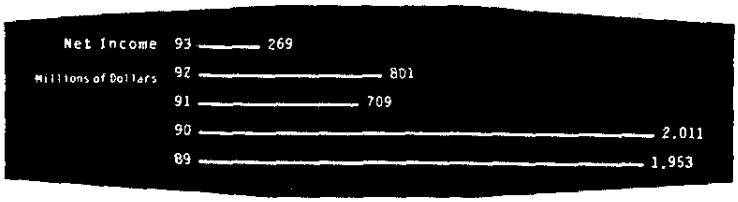

have taken action on those variables within our control, keeping our basic strategies on target.

ARCO's strategies have been in place since 1985. ARCO is a hydrocarbons-based company, concentrating on oil and gas, coal and petrochemicals. We focus on quality assets, low-cost resources and competitive differentiation. We continue to evaluate the capital markets for opportunities to utilize those markets effectively. We maintain financial leverage appropriate to our company's circumstances and long-range plans.

These strategies have served as the foundation for our success and have been the driving force in terms of investment in our core businesses. At the same time, they give us the flexibility required in a business where the job of finding resources and turning them into producible assets is quite challenging. Most importantly, however, they provide the framework necessary to keep our actions focused on financial and operational strength and on returns to stockholders for the long term.

Certainly, there were major changes within ARCO during 1993. The most significant was the reorganization of our Lower 48 oil and gas operations which were doing business as ARCO Oil and Gas Company. This reorganization divided the operations into four discrete and self-supporting business units. Each unit will have its own assets, operations and business strategies designed to run with optimum efficiency. Each will strive to have one of the lowest cost structures in the industry and be competitive with nonintegrated companies operating in their regions.

When this reorganization is completed, we will have eliminated about 1,300 jobs and the Dallas office headquarters for our Lower 48 operations. We expect annual cost savings of approximately $100 million after tax as a result of these changes.

Three of the new units — ARCO Permian, ARCO Western Energy and ARCO Long Beach, Inc. — will concentrate on exploiting the existing reserves in their focus areas. Together, as of December 31, 1993, they had total reserves of 631 million barrels of oil equivalent, which are primarily oil, and daily production of 148,000 barrels of oil equivalent.

The fourth unit, Vastar Resources, Inc., is operating as an independent exploration and production company, primarily with natural gas properties located in the Gulf of Mexico, the Gulf Coast, the Midcontinent and the San Juan Basin. Vastar will maintain an aggressive exploration program, focused on natural gas-prone areas where we have achieved success.

Vastar has 2 trillion cubic feet of natural gas reserves and 92 million barrels of oil and natural gas liquids reserves, making it one of the largest non-integrated exploration and production companies in the U.S.

In our other worldwide operations, we completed major development projects that will have a positive impact on the company for many years. In the United Kingdom North Sea, the Orwell and Murdoch natural gas fields came on stream and production from the Pickerill field, which started up in 1992, was expanded. We completed the first two natural gas fields to supply the domestic market in Indonesia — Pagerungan and Offshore Northwest Java. Our coal company started production and export of coal from the Gordonstone mine, which will become Australia's largest underground mine when development is fully completed.

Our Alaskan oil production benefited from the completion of expanded gas handling facilities at Prudhoe Bay and from the startup of Point McIntyre and two smaller fields, West Beach and North Prudhoe Bay State, in late 1993. These positive developments helped mitigate the decline in production that we have seen in Alaska since 1988.

Unfortunately, the delineation work that followed up on Alaska oil discoveries announced in 1991 and 1992 was not as promising as we had

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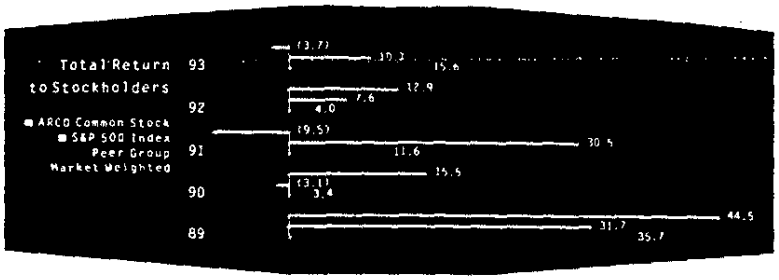

hoped. However, we remain committed in Alaska and continue to believe that it is one of the best places in the world to look for sizable new oil reserves.

Overseas, we are also continuing an active exploration program with much of our effort focused in areas where we are currently producing, in particular the U.K. North Sea and Indonesia. We have also been successful in acquiring exploration rights in the South China Sea, near the location of our 2.5-trillion-cubic-foot Yacheng natural gas field that is currently under development.

ARCO's presence as an international company is growing each year. In addition to the international oil and gas programs, our chemical and coal companies are increasing their activities both overseas and with exports from the United States. ARCO Coal Company, which exceeded the $100 million mark in net income for the first time in 1993, is working in an advisory capacity with a Chinese coal concern while they evaluate the potential of joint projects.

ARCO Chemical experienced growth in U.S. volumes resulting from the improved housing and automobile markets, although overseas markets remained weak as a result of the lingering recession.

ARCO's West Coast refining and marketing operations continued to outperform their competition in 1993. Retail gasoline sales were at record levels. Clean air fuel and stationary emissions regulations are requiring large capital commitments at our refineries, particularly the Los Angeles refinery. We are well under way with these programs and expect to be on target for meeting these regulations.

Overall, ARCO's assets are among the finest in the industry. We continue to analyze every aspect of our business with an eye to its strategic fit and to whether or not it will build stockholder value for the long term.

We have been fortunate over the years to share in the wisdom and experience of an active and committed board of directors and management team. Two longtime members of our senior management retired from active service and from the Board this past year. Retiring after 40 years with ARCO was our President and Chief Operating Officer Robert E. Wycoff and 34-year ARCO veteran Executive Vice President James S. Morrison.

In addition, two longtime outside Board members, Roy A. Anderson, retired chairman of Lockheed Corporation, and Donald M. Kendall, co-founder, former chairman and chief executive officer of PepsiCo, Inc., also retired from our Board. Each of these individuals has made valuable contributions to our company, and we are grateful to them.

Your continuing support — as ARCO stockholders — is recognition of ARCO's long-term value.

Lodwrick M. Cook
Chairman and
Chief Executive Officer

Mike R. Bowlin
President and
Chief Operating Officer

February 28, 1994

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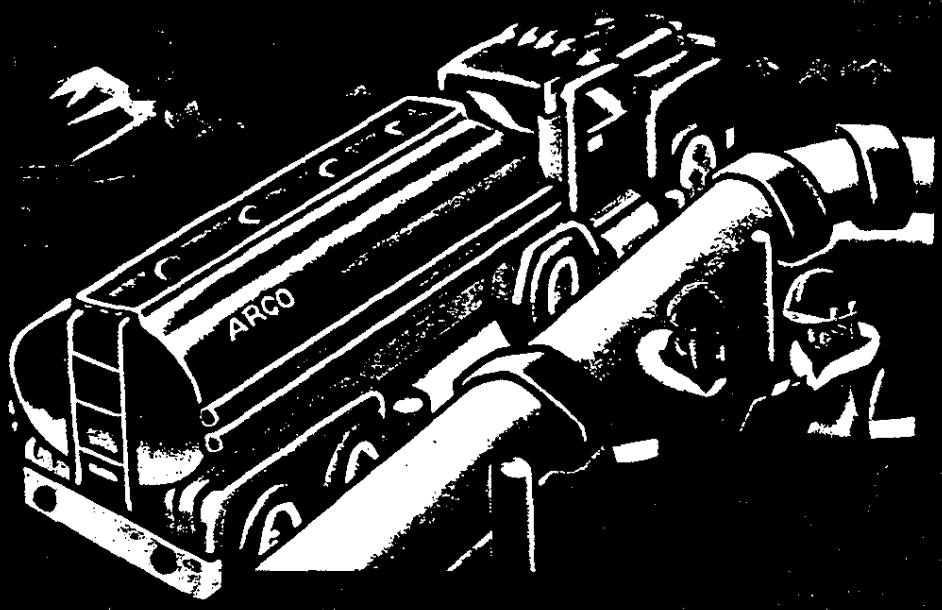
West Coast Operations



ARCO's integrated West Coast operations span from the giant oil fields of Alaska, through pipelines and marine tankers to ARCO refineries in Washington and California and finally, to a five-state retail marketing area. ARCO was responsible for the first oil discoveries in Alaska, including North America's largest oil field, Prudhoe Bay, in 1968. With its retail gasoline marketing focused in the western states, ARCO has led the industry in developing emission-control fuels to reduce air pollution.

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ARCO Alaska, Inc., completed two major development projects, the startup of the 340-million-barrel Point McIntyre field and the first phase of Prudhoe Bay's second major gas handling expansion (GHX-2), while maintaining an active exploration and delineation program in 1993.

Headquartered in Anchorage, ARCO Alaska is responsible for exploration, development and production of ARCO's oil and gas interests in the State of Alaska and surrounding offshore waters.

Building on cost-cutting programs implemented in 1991 and 1992, ARCO Alaska continued to reduce North Slope operating costs and improve efficiencies. In addition, startup of the Point McIntyre field and GHX-2 at Prudhoe Bay were completed under budget.

[illegible]

ARCO Alaska participated in 13 exploration and delineation wells in Alaska during 1993. One discovery, the North Prudhoe Bay State #3 well, was announced in April and began producing in mid-October. While results from the remaining wells were disappointing because they neither made new discoveries nor expanded upon prior discoveries, the company gained valuable information for use in future leasing and drilling activities.

ARCO has made a strong commitment to finding additional crude oil reserves in Alaska. In 1992, it confirmed the 1991 Sunfish discovery in Cook Inlet. A conceptual engineering team was established and predevelopment work began in 1993. Delineation drilling in the northern part of the Sunfish structure is continuing following the completion of one well in 1993. At least one more season of drilling will be required to determine the amount of reserves in the field. No further drilling is planned in the southern part of the prospect after completion of two unsuccessful wells in 1993.

In the Beaufort Sea, east of Prudhoe Bay, ARCO and its partners drilled two delineation wells on the Kuvlum prospect, where a discovery was made in 1992. Significant quantities of oil were confirmed, though they were not enough for stand-alone commercial development.

In addition to the offshore drilling projects, ARCO Alaska maintained an active drilling program on the North

		Prudhoe Bay	Kuparuk	Greater Point McIntyre
1993 liquids production* - thousand barrels/day	Gross	1,124	314	51
	Net	251	151	16
Cumulative liquids production* - millions of barrels	Gross	8,429	1,069	115
	Net	1,686	516	40
Cumulative field investment - billions	Net	$3.7	$2.5	$0.6
Producing oil wells - as of 12/31/93	Gross	869	402	58
	Net	189	222	22
Remaining proved liquids reserves* - millions of barrels	Net	1,014	465	141

[illegible]

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	1993	1992	1991	1990	1989
Earnings – millions	$ 225	$ 453	$ 413	$ 700	$ 546
Total assets – millions	$3,423	$3,542	$3,700	$3,724	$3,850
Additions to fixed assets – millions	$ 416	$ 294	$ 343	$ 298	$ 243
Liquids production – thousand barrels/day – net	418.7	438.9	440.6	433.8	459.4
Average crude price – per barrel	$10.33	$11.41	$11.23	$14.84	$11.71
State taxes – millions*	$ 381	$ 374	$ 381	$ 425	$ 394
Exploration expense – millions	$ 241	$ 112	$ 76	$ 147	$ 69
Proved liquids reserves – million barrels	1,623	1,769	1,822	1,966	1,985
Proved natural gas reserves – billion cubic feet	2,191	2,284	2,369	2,367	2,486

*In Alaska production, property and income taxes paid to the State of Alaska, as well as lump sum settlements of payments made to the State in 1991 for production taxes. Does not include the State's approximately 12.5 percent share of production.

Slope of Alaska to evaluate prior discoveries in Colville High, west of the Kuparuk River field, and to explore south of the existing fields in trends along the Brooks Range.

[illegible]

North America's largest oil field, Prudhoe Bay has been in production since 1977. A natural production decline that started in 1988 has been significantly mitigated by an aggressive program of gas handling expansions, development drilling, well work and other activities.

Natural gas produced along with the oil is processed and re-injected into the reservoir to mitigate reservoir pressure decline and enhance oil production.

GHX-2, which started up ahead of schedule in September 1993, increased gas handling capacity to an average 6.7 billion cubic feet per day in the fourth quarter.

When the second phase of GHX-2 is completed in late 1994, it is expected to increase average annual gas handling capacity to approximately 7.5 billion cubic feet per day, with both phases enhancing gross liquids production by 100,000 barrels per day.

ARCO Alaska has a 42.56 percent working interest in the condensate produced at Prudhoe Bay, a 21.78 percent working interest in the crude oil and in 1993, a 37.7 percent working interest in the natural gas liquids.

[illegible]

The second largest oil field in North America, Kuparuk River continued its strong reservoir performance in 1993. Production averaged 151,500 barrels per day net to ARCO, surpassing the 1992 level of 150,800 barrels per day when ARCO was in an equity payback position for the first part of the year. ARCO operates the field and has a 55.17 percent working interest in it.

Natural field decline at Kuparuk has been partially offset through peripheral development and infill drilling as well as fracturing and refracturing programs and expansion of enhanced oil recovery processes.

[illegible]

The Greater Point McIntyre area encompasses the Point McIntyre and Lisburne fields plus the smaller West Beach and North Prudhoe Bay State fields. Lisburne has been producing since 1986, while West Beach started in April 1993 and the other two in October 1993. As a result of facility sharing arrangements, ARCO and its partners are able to produce all four fields through the Lisburne facilities. Production through these facilities was averaging 135,200 gross barrels a day by the end of the year.

Point McIntyre, the largest domestic oil discovery in the 1980s, contains approximately 340 million barrels of gross reserves.

ARCO operates the Greater Point McIntyre area and holds a 30.1 percent working interest in Point McIntyre, a 40 percent interest in Lisburne, a 50 percent interest in West Beach and a 50 percent interest in North Prudhoe Bay State.

PNYC 00012906



Resolution of certain significant environmental regulations for the refining industry in Southern California together with record retail gasoline sales made 1993 a year of definite progress for ARCO Products Company.

Headquartered in Los Angeles, ARCO Products Company is responsible for ARCO's petroleum refining, distribution and marketing operations, located principally on the West Coast.

The recognized industry leader in the development and marketing of clean fuels, ARCO Products was one of only two California refiners to meet an October 1, 1993, deadline for the manufacture of clean diesel fuel. The new ARCO diesel provides a 98 percent reduction of sulfur dioxide, a 7 percent reduction of nitrogen oxide and a 25 percent reduction of particulate matter. ARCO invested nearly $70 million in a two-year modification program at its Los Angeles Refinery to meet diesel requirements mandated by both the federal government and the State of California.

Various federal, state and regional regulations related to clean fuels or alternative fuels and stationary emissions are being implemented during the 1990s. California, particularly Southern California, has some of the strictest requirements. ARCO pioneered the development of emission-control gasolines, which it introduced to the Southern California market as EC-1® and EC-Premium® in 1989 and 1990, respectively. A more advanced formulation, ARCO's EC-X, was announced in 1991 and was one of the prototypes studied by the California Air Resources Board (CARB) before its adoption of reformulated gasoline standards that become effective in 1996. Similar in formulation to EC-X, ARCO's new CARB-complying gasoline will be made at ARCO's Los Angeles Refinery, where extensive modifications are underway to accommodate this and other new regulatory requirements.

In 1993, the adoption by the South Coast Air Quality Management District of a program called the Regional Clean Air Incentives Market (RECLAIM) helped alleviate uncertainties for California industries, including refiners. RECLAIM establishes a program for the buying and selling of emissions credits while requiring an overall reduction in stationary source emissions. The company expects RECLAIM will provide a reasonable and definitive set of regulations which allow industry to continue to operate in the area and still make significant emissions reductions.

REFINING

ARCO operates two of the West Coast's most efficient refineries — the Los Angeles Refinery in Carson, California, and the Cherry Point Refinery near Ferndale, Washington. The refineries currently process Alaska North Slope crude oil exclusively.

In 1993, the ARCO refineries operated at 102 percent of rated capacity, which compared to the West Coast industry average of 90 percent. Crude oil runs were at record levels of 236,900 barrels a day at Los Angeles and 188,900 barrels a day at Cherry Point. Yields of higher-value light products, such as gasoline, jet fuel and distillate, were 88 percent, compared to 80 percent for the industry on the West Coast.

In addition to its basic refining

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	1993	1992	1991	1990	1989
Earnings – millions	$ 307	$ 346	$ 266	$ 439	$ 291
Total assets – millions	$2,789	$2,830	$2,732	$2,503	$2,175
Additions to fixed assets – millions	$ 345	$ 315	$ 448	$ 370	$ 314
Crude oil refinery runs – thousand barrels/day	425.8	425.1	404.9	398.6	400.9
Petroleum product sales (U.S.) – thousand barrels/day	481.5	479.5	466.4	444.0	435.5
Branded retail outlets (U.S.)	1,611	1,641	1,632	1,547	1,700

operations. ARCO Products operates two businesses which are ancillary to its refining operations — calcined coke and cogeneration. Petroleum coke is processed to high-value calcined coke at ARCO-owned calciners in Wilmington, California, and at Cherry Point. Calcined coke is marketed to the aluminum industry worldwide; sales were over 1 million metric tons in 1993.

Located at the Los Angeles Refinery and designed to fulfill the refinery's steam requirements, Watson Cogeneration Company set a new production record for output of electrical power in 1993. The electricity is used for plant operations, in addition to supplying electricity for Southern California customers. The cogeneration company is a joint venture with a subsidiary of SCEcorp.

ARCO Products Company maintained its position in 1993 as the retail market leader in its five-state marketing area — California, Arizona, Nevada, Oregon and Washington. ARCO's retail gasoline sales increased 5 percent from 1992, as the West Coast gasoline market strengthened after being relatively flat for two years. ARCO gasoline is marketed through independent ARCO-branded franchise dealers, distributors who supply other retail outlets, and Prestige Stations, Inc., a wholly owned subsidiary.

Fifty-five percent of the ARCO-branded retail gasoline outlets are also am/pm® convenience stores. Gross merchandise and food sales at am/pm stores increased 6 percent from 1992.

The am/pm program has also been marketed internationally through licensing agreements and joint ventures with local oil companies, food distribution concerns and investor groups. At the end of 1993, there were approximately 275 am/pm units operating in seven countries: Japan, Korea, Taiwan, Thailand, Indonesia, Canada and Brazil.

In addition to the domestic am/pm stores, over 135 retail outlets in California operated as SMOGPROS® franchise service centers in 1993, providing more than half a million smog checks for customers. Certified and equipped to provide state-required smog inspections and repairs, SMOGPROS also offer a full range of traditional automobile maintenance services.

Due to its strong wholesale marketing program, ARCO Products Company is also a leading marketer of commercial jet fuel on the West Coast. Commercial jet fuel sales were 1.2 billion gallons in 1993, and military sales were approximately 300 million gallons.

The company expanded export sales of finished petroleum products in 1993 and signed a diesel sales agreement with Sinochem, a Chinese company.

PayPoint® an electronic payment system originally designed to complement ARCO's retail operations, has developed into a significant services business unit within ARCO Products Company. PayPoint has expanded throughout the United States as various retailers, including grocery stores, fast food chains and drug stores, have contracted for ARCO-provided electronic debit and credit card processing services, as well as electronic check authorization and fleet card processing. PayPoint transactions grew by about 50 percent in 1993 as a result of increased use of debit cards at ARCO's retail outlets and increased services to other retailers.

Based on recognition that its retail operations in Brazil were not part of its core business, ARCO Products sold its Brazilian companies in December 1993.

PNYC 00012908



ARCO Transportation Company maintained its strong financial contribution to the company in 1993 while efficiently transporting ARCO's crude oil and finished products and strategically expanding its commercial assets. The company is headquartered in Long Beach, California.

ARCO Transportation is the link between ARCO's Alaskan oil production and its West Coast refining and marketing operations. The assets devoted to the integrated operations include a 21.3 percent interest in the Trans Alaska Pipeline System (TAPS), a 37 percent interest in the pipeline that links the Kuparuk River field with TAPS, a marine fleet of 10 tankers, and terminals and pipelines serving ARCO's refineries.

These operations safely moved over 280 million barrels of crude oil and finished products for ARCO during 1993. ARCO's cost of moving a barrel of crude oil from the North Slope of Alaska to the West Coast remained flat, despite lower TAPS throughput.

During 1993, the TAPS owners and federal regulators conducted reviews of the pipeline's operations and management. While the pipeline's operation is essentially sound, efforts are underway to address specific areas identified for improvement.

ARCO Transportation also manages commercial transportation and storage businesses on the West Coast, Gulf Coast and in the Midcontinent. In 1993, revenues from these businesses reached a record level, increasing 7 percent over 1992. This increase was driven by refiners' demand for finished product storage at the newly completed L.A. Basin terminalling facility, and by record throughput on the crude oil pipeline linking Texas City with midcontinent and midwest refineries.

During 1993, two commercial pipeline expansions were completed. Line 90, a major west-to-east crude oil pipeline, was expanded to accommodate an additional 12,000 barrels per day, and a new long-term agreement to continue shipping crude oil eastward on this line was signed. Also, the Texas City-to-Cushing pipeline system was expanded by up to 40,000 barrels per day, depending on the crude oil viscosity, to capitalize on growing demand from domestic refiners for imported crude oil.

	1993	1992	1991	1990	1989
Earnings - millions	$ 189	$ 239	$ 212	$ 274	$ 266
Total assets - millions	$2,145	$2,191	$2,223	$2,162	$2,170
Additions to fixed assets - millions	$ 59	$ 94	$ 124	$ 103	$ 43
TAPS tariff - per barrel	$ 2.94	$ 3.26	$ 3.72	$ 3.83	$ 3.11
TAPS throughput - thousand barrels/day	1,620	1,747	1,822	1,789	1,880
Kuparuk throughput - thousand barrels/day	333	341	330	310	310
Marine crude barrels delivered - millions	188	205	199	210	209

PNYC 00012909

Upstream Resources



ARCO has crude oil, gas and coal exploration, production and marketing activities in more than a dozen countries throughout the world. The company has a growing portfolio of assets overseas, including China's first offshore natural gas field, which is currently being developed by ARCO. In 1993, the company reorganized its Lower 48 oil and gas operations in the United States and expanded its coal production with the opening of Australia's largest underground mine and enhancements at U.S. mines.

PNYC 00012910

LOWER 48 OIL AND GAS OPERATIONS



ARCO continued to focus on improving the performance of its Lower 48 oil and gas operations through property sales and a reorganization of the operating unit which was known as ARCO Oil and Gas Company until October 1993.

Production from the Lower 48 properties was down 20 percent on a barrel-of-oil-equivalent basis from 1992; approximately 85 percent of the decrease came from property sales and the remainder from natural field declines. Approximately 160 fields, representing 13 percent of total Lower 48 production in 1992, were sold in 1993. Over the past three years, ARCO has upgraded its Lower 48 asset portfolio by divesting approximately 67 percent of its Lower 48 producing fields. These fields held approximately 26 percent of the total proved reserves on January 1, 1991.

EXPLORATION

Lower 48 exploration and extension efforts were focused in and around core areas in 1993. Exploratory additions to proved reserves totaled 30 million barrels of oil equivalent, compared to 16 million in 1992, an increase of almost 90 percent.

The company participated in 117 exploration wells in the Lower 48 in 1993, down 10 percent from the 1992 level. Spending for exploration was down 20 percent.

REORGANIZATION

The Lower 48 operations, formerly headquartered in Dallas, were reorganized in late 1993 into four self-sufficient operating units — Vastar Resources, Inc.; ARCO Permian; ARCO Western Energy, and ARCO Long Beach, Inc. The changes were designed to create flatter, independent organizations. When the transition is completed, ARCO will have eliminated approximately 1,300 positions overall. An after-tax charge of $450 million was taken in 1993 for the costs associated with the reorganization.

Cornerstone of the reorganization, the Houston-based ARCO subsidiary's operations are located offshore in the Gulf of Mexico, the Gulf Coast areas of Texas and Louisiana, in the San Juan Basin of northwestern New Mexico and southwestern Colorado, and in certain midcontinent oil and gas fields located in Texas, Oklahoma, Kansas, Louisiana and Arkansas. Approximately 78 percent of Vastar's proved reserves, which totaled 429 million barrels of oil equivalent as of December 31, 1993, are natural gas. If compared to independent, nonintegrated exploration and production concerns in the U.S., Vastar ranks third in total production and proved reserves.

Vastar will concentrate on expanding production, primarily natural gas, through exploration, exploitation of producing properties and selective tactical property acquisitions. It will focus exploration efforts on gas prospects near core producing areas.

Vastar currently operates 19 fields and has interests in an additional 11 fields in the Gulf of Mexico. In 1993, it made a major exploration discovery in the Mustang Island area of the Gulf. Three wells confirmed net proved reserves of over 100 billion cubic feet and areal extent covering portions of four offshore blocks. An existing platform deck and facilities were acquired.

PNYC 00012911

	1993	1992	1991	1990	1989
Earnings (losses) – millions	$ (163)	$ 192	$ 57	$ 588	$ 349
Total assets – millions	$3,235	$4,405	$5,185	$5,040	$5,068
Additions to fixed assets – millions	$ 334	$ 404	$1,083	$ 808	$ 703
Liquids production – thousand barrels/day – net	186.0	221.6	227.9	204.5	200.6
Natural gas production – million cubic feet/day – net	880	1,161	1,358	1,515	1,497
Average crude price – per barrel	$15.07	$16.34	$16.72	$20.85	$16.92
Average natural gas price – per thousand cubic feet	$ 1.96	$ 1.66	$ 1.54	$ 1.67	$ 1.68
Exploration expense – millions	$ 216	$ 270	$ 339	$ 334	$ 312
Proved liquids reserves – million barrels	636	748	820	754	780
Proved natural gas reserves – billion cubic feet	2,534	2,901	3,429	3,889	3,966

refurbished and installed, making it possible for production to start just 10 months after initial discovery.

Vastar also continued its development in the offshore South Pass 60 field, which produces both oil and natural gas. Newly acquired 3-D seismic data is being used to identify numerous new development opportunities in this field, which has been in production for more than 20 years.

ARCO Permian

Based in Midland, Texas, ARCO Permian will exploit existing long-lived fields in the Permian and East Texas oil field areas. Approximately 75 percent of the unit's 336 million barrels of oil equivalent proved reserves are liquids. In 1993, ARCO Permian produced 81,000 barrels of oil equivalent per day.

ARCO Permian has identified opportunities to extend and further exploit properties within its existing fields. In 1993, a $20 million waterflood project in the South Justis Unit in southeastern New Mexico developed 11 million net barrels of oil equivalent.

ARCO Permian has an extensive 3-D seismic program underway to identify areas for further exploitation around its existing assets. The 1993 program covered approximately 303 square miles around its core producing areas.

ARCO Western Energy

Based in Bakersfield, California, this unit will continue to produce California oil and gas properties, most of which are located in the southern part of the San Joaquin Valley. It will focus on maintaining its position as a low-cost, heavy oil producer.

Approximately 94 percent of ARCO Western Energy's 173 million barrels of oil equivalent proved reserves are in steam-flooded oil. Production averaged 44,000 barrels of oil equivalent per day in 1993.

ARCO Western Energy will continue exploitation of its properties through additional development drilling. In 1993, $7.7 million was spent on drilling and completing 69 development wells in the Midway-Sunset field, bringing on an additional 5.7 million barrels of oil.

ARCO Long Beach, Inc.

An ARCO subsidiary, ARCO Long Beach manages the development of the optimized waterflood in the Long Beach Unit of California's Wilmington oil field. Under the optimized waterflood contract with the City of Long Beach and the State of California, ARCO Long Beach receives half of any profits above an agreed base profit level. Since initiating the project in 1992, 125 wells have been drilled from the field's facilities in Long Beach harbor.

Net production from the subsidiary in 1993 averaged 23,000 barrels per day, while proved net reserves totaled 122 million barrels of oil equivalent at year's end.

PNYC 00012912



ARCO International Oil and Gas Company completed development of four major natural gas projects in 1993 and made significant progress in its South China Sea gas field development. The company also realized exploration successes and reached agreement on a number of new exploration and seismic concessions.

Headquartered in Plano, Texas, ARCO International is responsible for the Corporation's growing oil and gas exploration, development, production and marketing activities outside the United States. The company recently became a significant offshore gas producer in Indonesia with the completion in 1993 of two new gas developments, the Offshore Northwest Java contract area and the Pagerungan field north of Bali. ARCO International is also a significant participant in the North Sea's Southern Gas Basin.

ARCO International took actions to achieve long-term cost reductions in all operations during 1993. As a result of these efforts and increased production, the company kept 1993 operating expenses flat with 1992 levels and reduced costs on an equivalent-barrel basis.

E[illegible]

ARCO International maintained an active drilling program in 1993. The 300-billion-cubic-foot Sirasun discovery in the Kangean block in Indonesia was one of eight gas and 10 oil discoveries decisioned in 1993. In total, 54 gross wells were drilled in seven countries during the year. Most of the 1993 wells were drilled in the North Sea and Indonesia, where ARCO International currently has producing operations.

ARCO International was awarded six new licenses for exploration in the U.K.'s 14th Licensing Round and was granted an extension of its exploration license in the Oriente area of Ecuador. New concession agreements with drilling or seismic commitments were obtained in Tunisia, Indonesia, China, Ireland and the Philippines. During 1993, licenses in New Zealand were sold and activities were concluded in Ethiopia, Germany, and various licenses in the Netherlands and Turkey.

E[illegible]

ARCO International produces natural gas offshore in the United Kingdom and the Netherlands and oil onshore and offshore in the U.K. During 1993, ARCO International completed two new gas developments and started up the second phase of the 1992 Pickerill gas development.

The ARCO-operated Orwell natural gas field came on stream in August 1993, and produced 49 million net cubic feet per day for the 1993 fourth quarter. ARCO holds a 50 percent interest in Orwell, which is expected to have a 10-year productive life.

ARCO holds a 34 percent non-operating interest in the Murdoch natural gas field, which came on stream in October 1993. Murdoch's net production was 45 million cubic feet per day in the 1993 fourth quarter, and the field is expected to have a 20-year productive life.

Development of the offshore reserves in the Wytch Farm oil field, located in the southern U.K., was initiated in 1993, giving ARCO an additional 4,400 net barrels per day. ARCO holds a 17.33 percent interest in Wytch Farm.

I[illegible]

ARCO International completed development of two major natural gas developments in Indonesia in

PNYC 00012913

	1993	1992	1991	1990	1989
Earnings (losses) – millions	$ (17)	$ 171*	$ 79	$ 76	$ (8)
Total assets – millions	$2,691	$2,415	$2,466	$2,205	$1,902
Additions to fixed assets – millions	$ 633	$ 551	$ 464	$ 454	$ 363
Liquids production – thousand barrels/day – net	79.7	77.7	75.7	67.1	70.1
Natural gas production – million cubic feet/day – net	320.6	239.7	261.2	193.5	169.2
Average crude price – per barrel	$16.41	$16.17	$18.67	$20.15	$16.25
Average natural gas price – per thousand cubic feet	$ 2.69	$ 2.96	$ 3.16	$ 3.08	$ 2.71
Exploration expense – millions	$ 210	$ 185	$ 178	$ 170	$ 98
Proved liquids reserves – million barrels	206	211	189	210	237
Proved natural gas reserves – billion cubic feet	3,280	3,117	2,405	1,796	1,206

*[illegible]

1993. One was in the Offshore Northwest Java contract area, where the company has produced oil for nearly 25 years. Development of the Pagerungan field in the Kangean Block, offshore Bali, was completed in December 1993 and began gas deliveries in January 1994.

Natural gas from ARCO's facilities in the Java Sea began moving to power plants serving the Indonesian capital of Jakarta in September. The company has contracted to deliver an average of 260 million gross cubic feet per day of gas over the next 11 years to help provide electrical power to this growing area. The company holds a 46 percent working interest in the project.

Pagerungan field production of 300 million gross cubic feet per day in 1994 will move by way of a third-party pipeline from ARCO-operated facilities on Pagerungan Island to customers on East Java, including the state electric power plant that serves the city of Surabaya. ARCO International holds a 54 percent working interest in the Pagerungan field, which is expected to have a 17-year life.

Gross oil production from the ARCO-operated Offshore Northwest Java Sea contract area was 122,300 barrels per day in 1993, compared with 126,800 in 1992. ARCO's net share of the 1993 production was 43,900 barrels per day and 39,100 barrels per day in 1992.

The company increased its interest in the Malacca Straits oil field to 32.58 percent in 1993. ARCO's production was 6,450 net barrels per day in 1993, up from 5,700 net barrels in 1992.

CHINA

Development of the Yacheng 13-1 gas field in the South China Sea is on schedule for an early 1996 startup. Fabrication of the process and wellhead platforms is underway and installation of a subsea pipeline to Hong Kong began in December 1993. ARCO will operate the $1.2 billion development, which includes offshore and onshore processing facilities and pipelines to Hainan Island and to Hong Kong. The Yacheng field contains 2.5 trillion gross cubic feet of proved reserves. ARCO's working interest is 34.3 percent.

ARCO International successfully negotiated two additional exploration blocks near the Yacheng-to-Hong Kong pipeline route in 1993. Drilling on one of these, the Yacheng 35 Block, commenced the first week in 1994.

DUBAI

ARCO is the sole working interest owner and operator of the Margham condensate field in Dubai, United Arab Emirates. Net condensate production during 1993 averaged 8,600 barrels per day.

TURKEY

ARCO's interest in three oil fields in southeastern Turkey produced 1,500 net barrels per day in 1993.

RESERVES

ARCO International's net proved reserves increased three percent on a barrel-of-oil-equivalent basis in 1993. Reserves additions replaced production and came primarily from oil discoveries in the North Sea and oil and gas discoveries in Indonesia, including the Sirasun discovery.

PNYC 00012914



ARCO Coal Company, headquartered in Denver, Colorado, owns and operates mines in the Powder River and Uinta Basins in the western United States and in the Bowen Basin in northeastern Australia. The mines produce high-quality, low-sulfur steam and coking coals which are marketed worldwide. Net income for the company in 1993 was a record $107 million, with record sales and production from all mines.

ARCO mines produced 37.5 million tons of coal for the U.S. and export markets in 1993. Record sales levels were achieved as a result of strong utility demand and reduced East Coast supply as a result of a mine workers strike.

ARCO Coal's Black Thunder surface mine in Wyoming is the largest coal mine in the Western Hemisphere. With the startup of a third dragline for the removal of overburden plus other productivity enhancements, Black Thunder shipped 34.3 million tons of coal in 1993.

The underground West Elk mine in Colorado completed its first full year using one of the largest longwall units in the U.S. Its reserve base was increased by about 10 million tons with the acquisition of the Jumbo Mountain federal lease in early 1994.

ARCO Coal has interests in three mines in Queensland, Australia. Together, these mines shipped 10.2 million net tons in 1993.

The startup of the Gordonstone mine, in which ARCO has an 80 percent interest, occurred in the first half of 1993. By the fourth quarter of 1993, the mine was producing at an annual rate of 2.2 million net tons using one longwall unit.

The Curragh surface mine, in which ARCO has an effective 87 percent interest, shipped 5.5 million net tons of coal in 1993.

The Blair Athol surface mine, in which ARCO holds a 31.4 percent interest, shipped 3.4 million net tons in 1993. ARCO and the operator of Blair Athol have signed an agreement to acquire 55 percent of the nearby undeveloped Clermont Project, which includes estimated gross reserves of approximately 200 million tons of steam coal.

ARCO Coal China, Inc., a subsidiary of ARCO, and China's Huaneng Coal Corporation entered into an agreement to provide Huaneng with consulting services while the two companies study various coal mining investment opportunities.

	1993	1992	1991	1990	1989
Earnings – millions	$ 107	$ 83	$ 33	$ 91	$ 92
Total assets – millions	$1,320	$1,411	$1,095	$ 929	$ 857
Additions to fixed assets – millions	$ 94	$ 308	$ 305	$ 109	$ 148
Average market price – per ton	$13.53	$14.64	$14.27	$14.81	$13.95
Coal shipments – millions of tons	47.7	39.8	41.6	38.3	39.4
Coal reserves – million tons recoverable	1,510	1,468	1,118	1,265	1,190

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CHEMICALS: CORPORATE RESPONSIBILITY;
ENVIRONMENT, HEALTH & SAFETY



ARCO's intermediate chemicals and specialty products interests comprise an 83.3 percent interest in ARCO Chemical Company, a worldwide manufacturer and marketer with expertise in environmentally friendly products. ARCO has long been an industry leader in its commitment to the communities where it does business and in its attention to the environment, health and safety and has made these concerns an integral part of its business.

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A world leader in manufacturing and marketing its core products, ARCO Chemical maintains manufacturing, technical and research facilities in the United States, Europe and the Asia Pacific Region. It serves customers in more than 100 countries, with nearly half of its sales outside the United States.

The company is expanding its global leadership by becoming more involved with its customers. In 1993, technical partnerships with customers were established to explore joint cost-saving and product development opportunities. Cost savings in manufacturing urethane foams for car seats, for example, were the result of a technical partnership with a customer. Future market opportunities for new polyurethanes for home furnishings have also emerged from a technical partnership.

To further develop and support new markets for propylene oxide derivatives, ARCO Chemical increased annual worldwide polyols capacity by 95 million pounds through incremental expansion of existing facilities. At the company's Rotterdam manufacturing center, ground was broken for a new propylene glycol ether plant that is to be completed by 1995.

ARCO Chemical's proprietary core product technologies have enabled the company to develop products that are friendlier to the environment. In 1993, the company enlarged its markets for these products by working with a marketing and distribution partner to market a propylene glycol-based (PG) antifreeze in the U.S. Like ARCO Chemical's PG-based aircraft de-icers, PG antifreeze is less toxic than products based on ethylene glycol.

Additionally, MTBE (methyl tertiary butyl ether) has been a preferred product among fuel oxygenates for winter-season air quality programs designed to reduce fuel emissions in U.S. cities. In 1993, the company demonstrated the capability to manufacture and market a companion product, ETBE (ethyl tertiary butyl ether), to help refiners meet 1995 requirements for the use of additional oxygenates in reformulated gasolines to reduce air pollution.

ARCO holds an 83.3 percent interest in ARCO Chemical Company, which is headquartered in Newtown Square, Pennsylvania. Its stock is listed on the New York Stock Exchange under the symbol "RCM."

	1993	1992	1991	1990	1989
Earnings – millions	$ 214	$ 195	$ 188	$ 351	$ 405
Total assets – millions	$3,502	$3,599	$3,676	$3,739	$2,655
Additions to fixed assets – millions	$ 181	$ 295	$ 435	$ 539	$ 262
Total revenues – millions	$3,192	$3,100	$2,990	$2,950	$2,663
Propylene oxide and derivatives – million pounds	3,356	3,055	2,729	2,563	2,586
Tertiary Butyl Alcohol and derivatives – million gallons	1,164	1,092	996	955	912
Styrene monomer and derivatives – million pounds	2,084	1,434	1,278	1,098	1,478

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ARCO maintained its firm commitment to "investment," rather than "charitable gifts," as it worked with nonprofit organizations serving communities where ARCO people, facilities and markets are concentrated.

As a result, the ARCO Foundation looks to local nonprofit organizations that seek solutions to economic and social disparity. The returns on its investment: healthier communities with greater numbers of self-sufficient people where ARCO does business.

Education and community programs received about 75 percent of the 1993 philanthropic investments from ARCO and its employees. The Corporation has long believed that investing in youth, from infancy through college, will pay dividends for the future. A recent survey of colleges and universities that had received ARCO's Minority Engineering Program grants showed that such programs can pay dividends. The company has invested nearly $5.5 million in the program, working with 39 universities and colleges since 1987.

The program is designed to help schools retain under-represented minority students in engineering disciplines. The survey found increased minority engineering enrollment, higher minority grades and retention rates and more universities making minority engineering directors part of their annual budgets. At the Colorado School of Mines, for example, minority enrollment increased 46 percent since the program began while the University of Texas at Austin experienced a 70 percent retention rate for minority engineering program freshmen.

Through a program to match employee contributions, the Foundation invested $5.8 million and another $240,000 was invested in organizations to which employees or retirees volunteer at least 12 hours per month of their own time. In total during 1993, more than $25 million went to nonprofit organizations through the ARCO Foundation's direct grants, employee matching grants and other company participation projects.

ARCO has also continued its community efforts through a drive to increase purchases from minority and women-owned businesses. Despite tightened budgets, ARCO has maintained a strong emphasis on these business-based programs. In 1993, the company joined with Dartmouth College's Amos Tuck School of Business and sponsored Tuck's acclaimed Minority Business Executive Program in Los Angeles. Called "Managing Success," the program gave 50 Southern California minority business owners an opportunity to learn new skills and strategies from experts.

Along with working through its hiring programs to shape a diverse work force that is reflective of the population, ARCO is increasing diversity awareness through training programs, starting with managers. In ARCO Products Company, for example, senior executives attended a day-long session to discuss the impact of future demographic projections, ways to develop a diversity strategy and to reduce attitudes and prejudices that can hurt the company.

ARCO has long sought qualified female and minority candidates in its hiring and promotional programs. In addition, the company is committed to ensuring that no individual will be discriminated against on the basis of a disability.

PNYC 00012918

ARCO continued to improve its environmental programs in 1993, giving particular attention to cost effectiveness while maintaining a high level of attention to safety.

The Environment, Health and Safety (EH&S) committee of ARCO's Board of Directors met regularly to review companywide activities. EH&S policies are set by company management. Each operating location is responsible for implementation.

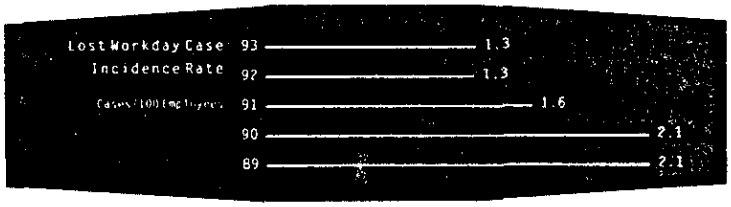
To insure that standards are maintained, ARCO conducts an internal audit with reviews for environment, health and safety. The environmental, health and safety audits evaluate compliance with regulations, company policies and procedures, management practices and systems, and industry standards. In 1993, auditors completed reviews on 28 percent of all auditable operations within headquarters and operating units. In addition, all ARCO-owned service stations were visited by auditors in the past three years. Findings are reviewed with management and action plans requiring periodic follow-up and status reports are developed.

ARCO keeps its own skilled spill response teams alert and trained by conducting annual exercises at different locations. The 1993 ARCO marine spill drill was held at Port Angeles, Washington. ARCO's marine spill team combined with response team members from other operating units and federal, state and local government agencies to conduct the exercise. Plans for protection of environmentally sensitive areas were set up and clean-up plans were developed along with a wildlife rescue program. A joint mock press conference was held.

While most new operations are designed with ongoing remediation programs in place, ARCO also has responsibility for clean-up of discontinued operations and the facilities of predecessor companies.

To help develop appropriate remediation approaches, ARCO has funded environmental health studies to assist in gathering scientific data on the human health effects of arsenic and lead, naturally occurring elements associated with past mining activities. Their acute effects are known, but recent evidence suggests that effects of long-term exposures to low levels have been overestimated.

ARCO is spearheading a cooperative effort to provide a scientific basis for risk assessment and health protective clean-up standards. Results will be instrumental in remediation cost-control efforts and directly relevant to populations in or near former business or waste sites.



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Millions of dollars, except per share amounts	1993[1]	1992[1]	1991[1]	1990	1989[2]
Sales and other operating revenues — including excise taxes	$18,487	$18,668	$18,191	$18,836	$16,049
Income before changes in accounting principles	$ 269	$ 1,193	$ 709	$ 1,688	$ 1,953
Net income	$ 269	$ 801	$ 709	$ 2,011	$ 1,953
Earned per share before changes in accounting principles	$ 1.66	$ 7.39	$ 4.39	$ 10.20	$ 11.26
Earned per share	$ 1.66	$ 4.96	$ 4.39	$ 12.15	$ 11.26
Cash dividends per common share	$ 5.50	$ 5.50	$ 5.50	$ 5.00	$ 4.50
Total assets	$23,894	$24,256	$24,492	$23,864	$22,261
Long-term debt and capital lease obligations	$ 7,089	$ 6,227	$ 5,989	$ 5,997	$ 5,313

(1) See Note 2 of Notes to Consolidated Financial Statements regarding unusual items.
(2) Includes after-tax gain of $634 million from sale of majority interest in Lyondell Petrochemical Company.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW OF 1993 RESULTS

In 1993, ARCO's net income was $269 million, or $1.66 per share. Operating results were lower compared to 1992. Operations in 1993 benefited from improved margins and higher gasoline sales volumes in ARCO's West Coast refining and marketing operations, higher coal sales volumes and higher natural gas prices. These benefits were more than offset by lower crude oil prices and volumes, lower natural gas volumes, higher exploration and selling, general and administrative expenses and lower after-tax earnings from transportation operations.

The 1993 results included net charges of $545 million after tax related to reorganization of ARCO's Lower 48 oil and gas operations, the impact of the federal corporate tax rate increase on deferred taxes, litigation issues, reserves for future environmental remediation and a loss on the sale of Brazilian marketing subsidiaries partially offset by gains from Lower 48 property sales.

The charges associated with the fourth quarter reorganization of ARCO's Lower 48 oil and gas operations were $450 million after tax. Included in those charges were unusual items of $659 million before tax, $404 million after tax, primarily related to writedowns for sale or other disposition of oil and gas properties and excess office space, in addition to workforce reductions. The incremental cash cost associated with these charges is approximately $60 million after tax.

OVERVIEW OF 1992 RESULTS

In 1992, ARCO's net income was $801 million, or $4.96 per share. The improvement in operating results compared to 1991 reflected improved margins and higher sales volumes in refining and marketing operations, lower lease operating costs, higher sales volumes and margins in chemical operations and higher natural gas prices, partially offset by lower natural gas sales volumes. In addition, income from equity earnings, interest income and interest expense were lower in 1992.

The 1992 results included approximately $140 million after tax in net benefits primarily related to unusual items, partially offset by provisions for future environmental costs. Unusual items were $271 million before tax, $211 million after tax, and were comprised of a settlement on assets nationalized by Iran and recognition of a previously deferred portion of the gain from the 1989 sale of a majority interest in Lyondell Petrochemical Company (Lyondell), partially offset by a charge related to the withdrawal by ARCO Chemical Company (ARCO Chemical) from a South Korean joint venture.

The 1992 results also included a net after-tax charge of

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$392 million, or $2.43 per share, for the cumulative effect of adopting two new accounting standards related to non-pension postretirement benefits and income taxes.

OVERVIEW OF 1991 RESULTS

In 1991, ARCO's net income was $709 million, or $4.39 per share. Results included net charges for unusual items of $503 million before tax, $312 million after tax, primarily related to personnel reductions, anticipated loss on property sales and property writedowns.

RESULTS OF CONSOLIDATED OPERATIONS

REVENUES

Sales and other operating revenues were $18.5 billion in 1993, $18.7 billion in 1992 and $18.2 billion in 1991. The decrease in revenues in 1993, compared to 1992, resulted from lower crude oil prices and volumes, lower natural gas volumes, decreased crude oil trading volumes and lower refined and chemical products prices, partially offset by increased natural gas marketing volumes and higher refined and chemical products sales volumes and natural gas prices.

The increase in revenues in 1992, compared to 1991, resulted from higher crude oil trading volumes, refined product prices and sales volumes, chemical product sales volumes and natural gas prices, partially offset by lower crude oil prices and natural gas volumes.

Income from equity investments was $40 million in 1993, $22 million in 1992 and $119 million in 1991. The increase in income from equity investments in 1993, compared to 1992, primarily reflected reduced losses from ARCO Chemical's equity affiliates. The lower income in 1992, compared to 1991, primarily resulted from a decline in earnings from Lyondell.

Other revenues were $492 million in 1993, compared to $376 million in 1992 and $385 million in 1991. The increase in 1993 reflected higher gains on asset sales.

EXPENSES

Trade purchases were $7.2 billion in 1993, $7.3 billion in 1992 and $7.0 billion in 1991. The 1993 trade purchases decrease compared to 1992 reflected lower crude oil trading prices and volumes and lower purchased volumes of finished refined products and chemical feedstocks, partially offset by higher natural gas marketing volumes and prices. The trade purchases increase in 1992, compared to 1991, related primarily to higher crude oil trading volumes, partially offset by lower crude oil prices.

Operating expenses were $3.3 billion in 1993, $3.2 billion in 1992 and $3.1 billion in 1991. In 1993, operating expenses were higher than in 1992 as a result of litigation-related accruals, higher compensation and contract personnel costs associated with downstream and coal operations and higher maintenance costs, including turnarounds at three chemical plants, partially offset by lower operating costs in oil and gas operations. In 1992, lower operating costs in oil and gas were offset by higher operating costs in chemical operations.

Exploration expenses were $667 million in 1993, $567 million in 1992 and $593 million in 1991. The increase in 1993, compared to 1992, reflected higher dry hole costs in Alaska and increased activity overseas, partially offset by decreased activity in the Lower 48.

Selling, general and administrative expenses were $1.8 billion in 1993, $1.7 billion in 1992, and $1.8 billion in 1991. Increased expenses in 1993, compared to 1992, primarily resulted from higher compensation expense and higher delivery and advertising costs. The decrease in expenses in 1992, compared to 1991, primarily reflected lower insurance and pension costs.

Taxes other than excise and income taxes were $1.1 billion in 1993, $1.2 billion in 1992, and $1.1 billion in 1991. The decrease in 1993 primarily resulted from lower production taxes related to lower crude oil prices and volumes. The increase in 1992 primarily resulted from an increase in the Brazilian value-added tax rate.

Excise taxes were $1.3 billion in 1993, $1.2 billion in 1992 and $1.1 billion in 1991. The increase in 1993, compared to 1992, primarily resulted from the fourth quarter 1993 federal excise tax rate increase, the full-year effect in 1993 of increased state excise tax rates in 1992 and higher refined products sales volumes. The increase in 1992, compared to 1991, resulted from higher refined product sales volumes and increases in state excise tax rates in certain states in the fourth quarter of 1992.

Depreciation, depletion and amortization was $1.7 billion in 1993, $1.8 billion in 1992 and $1.7 billion in 1991. The decrease in 1993, compared to 1992, resulted from

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the sale of Lower 48 oil and gas properties, partially offset by a $73 million accrual for the plugging and abandonment of onshore wells. The increase in 1992, compared to 1991, included the startup of the new ARCO Chemical propylene oxide/styrene monomer plant in Channelview, Texas and assets placed in service at the Corporation's two West Coast refineries.

Interest expense was $715 million in 1993, $762 million in 1992 and $892 million in 1991. A decline in the weighted average interest rate on outstanding long-term debt in 1993 and 1992 is the primary cause of the lower interest expense compared to 1991.

The Corporation's effective tax rate was 51.6% in 1993, compared to 35.6% in 1992 and 36.2% in 1991. The higher effective tax rate in 1993 reflected increased taxes on foreign income and the effect of the 1993 federal tax rate increase on deferred taxes.

Results of Segment Operations

Oil and Gas

ARCO's worldwide oil and gas exploration and production operations earned $45 million after tax in 1993, versus $816 million after tax in 1992. The effect of lower crude oil prices and volumes and natural gas volumes and higher dry hole expense, partially offset by higher natural gas prices and lower depletion and lease operating costs, resulted in the lower earnings for 1993. The 1993 results included net charges of approximately $390 million after tax comprised of the previously discussed charges associated with the Lower 48 reorganization, the federal tax rate increase and other charges, partially offset by gains on property sales. Annual future cost savings associated with the Lower 48 reorganization are estimated to be approximately $100 million after tax. The 1992 results included a net benefit of $138 million after tax consisting of gains from the Iranian settlement, and gains from Lower 48 property sales, partially offset by charges associated with the downsizing of Lower 48 operations.

ARCO's oil and gas exploration and production operations earned $816 million after tax in 1992, up from $549 million after tax in 1991. The 1992 results reflected the effect of lower operating and exploration costs and higher natural gas prices, offset by lower natural gas sales volumes, compared to 1991. The 1991 results included approximately $170 million after tax in net charges related to personnel reductions and the anticipated loss on divestiture of properties in the Lower 48, partially offset by a benefit from the reduction in U.K. corporation tax rates.

The Corporation's domestic composite average price for crude oil was $11.67 per barrel in 1993, $12.92 per barrel in 1992 and $12.93 per barrel in 1991. Average domestic natural gas prices were $1.93 per thousand cubic feet in 1993, $1.65 per thousand cubic feet in 1992 and $1.54 per thousand cubic feet in 1991.

Worldwide petroleum liquids production averaged 684,400 barrels per day in 1993, 738,200 barrels per day in 1992 and 744,200 barrels per day in 1991. Volumes decreased in 1993 as a result of Lower 48 property divestitures and natural field declines, partially offset by increased overseas production. Natural field decline in Alaska was partially offset by the September 1993 startup of the first phase of the second gas handling expansion facility (GHX-2) at Prudhoe Bay and new volumes which came on-stream from the Greater Point McIntyre area in October 1993. Worldwide production in 1992, compared to 1991, benefited from increased international volumes, although this was offset by natural field declines and Lower 48 property divestitures.

ARCO's share of production from its largest Alaskan field, Prudhoe Bay, was 250,800 barrels of petroleum liquids per day in 1993, compared to 270,500 barrels per day in 1992 and 281,700 barrels per day in 1991. The decline in 1993 and 1992, compared to 1991, primarily reflected natural field decline.

ARCO's share of petroleum liquids production from the Kuparuk River field was 151,500 barrels per day in 1993 compared to 150,800 barrels per day in 1992 and 140,300 barrels per day in 1991. The increase in 1992, compared to 1991, reflected the completion as of July 1, 1992 of a 24-month production payback of 9,000 barrels per day and improved field operations.

Lower 48 petroleum liquids production was 186,000 barrels per day in 1993, 221,600 barrels per day in 1992 and 227,900 barrels per day in 1991. Domestic natural gas production totaled 911 million cubic feet per day in

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1993, 1.2 billion cubic feet per day in 1992 and 1.4 billion cubic feet per day in 1991. The decreases in 1993 and 1992 production were primarily associated with the sale of Lower 48 properties and natural field declines.

Foreign petroleum liquids production averaged 79,700 barrels per day in 1993, 77,700 barrels per day in 1992 and 75,700 barrels per day in 1991. Foreign natural gas production increased to 321 million cubic feet per day in 1993 as a result of the first full year of production from the Pickerill field in the United Kingdom North Sea and new production from the Orwell and Murdoch fields in the U.K. North Sea and from the offshore Northwest Java Sea field in Indonesia, all of which began production in late 1993. The decrease in 1992 natural gas production to 240 million cubic feet per day from 261 million cubic feet per day in 1991, reflected primarily natural field decline in the United Kingdom.

Coal

After-tax earnings from coal operations were $107 million in 1993, $83 million in 1992 and $33 million in 1991. The improvement in 1993 earnings reflected record sales volumes as a result of strong electric utility demand and reduced East Coast supply as a result of a mine workers strike. Australian mines also set production volumes and sales records for 1993. 1993 results included a benefit of approximately $10 million after tax associated with a change in the accrued estimated loss on the sale of the Coal Resources of Queensland (CRQ) mine, which was completed in January 1993. Included in the 1991 earnings were approximately $50 million in net after-tax charges primarily associated with a writedown of the CRQ mine, partially offset by gains from the sale of Venezuelan and other assets. Total worldwide coal shipments in 1993 were 47.7 million tons compared to 39.8 million tons in 1992 and 41.6 million tons in 1991.

Refining and Marketing

After-tax earnings for refining and marketing operations were $307 million in 1993, $346 million in 1992 and $266 million in 1991. Earnings were lower in 1993, compared to 1992, because operating results were offset by a net charge of approximately $80 million after tax, comprised primarily of litigation-related accruals, the loss associated with the sale of the Brazilian marketing subsidiaries and the effect of the federal tax rate increase on deferred taxes. The improved earnings in 1992, compared to 1991, were the result of higher margins and sales volumes in the West Coast marketing area. The 1992 results included a charge of approximately $40 million after tax primarily for environmental costs related to previously divested operations. The 1991 earnings included approximately $10 million of net after-tax charges for personnel reductions, future environmental remediation primarily associated with previously divested properties and certain legal exposures, partially offset by benefits associated with accounting and tax adjustments related to Brazilian operations.

West Coast petroleum products sales totaled 481,500 barrels per day in 1993, 479,500 barrels per day in 1992 and 466,400 barrels per day in 1991. The higher level of sales in 1993, compared to 1992, resulted from increased demand. The higher level of sales in 1992, compared to 1991, resulted from increased market share. The marketing operations supplemented ARCO's production with third-party purchases in order to meet increased sales.

Transportation

After-tax earnings for the transportation operations were $189 million in 1993, $239 million in 1992 and $212 million in 1991. The 1993 earnings were lower, compared to 1992, as a result of a lower Trans Alaska Pipeline System (TAPS) tariff, lower volumes and the effect of the federal tax rate increase on deferred taxes. In 1992, improved results from Lower 48 terminal and pipeline operations offset a decline in earnings from TAPS. The 1991 earnings included after-tax charges of approximately $30 million for personnel reduction costs and for settlement of the Kuparuk Pipeline tariff rate litigation.

Intermediate Chemicals and Specialty Products

After-tax earnings for the intermediate chemicals and specialty products segment were $239 million in 1993, $210 million in 1992 and $192 million in 1991. The segment consists of ARCO Chemical, an 83.3 percent owned subsidiary of the Corporation. ARCO Chemical's reported net income in 1993 included a $10 million after-tax loss on early debt extinguishment and benefited from a lower effective income tax rate. The 1992

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results included $56 million before tax for a charge resulting from ARCO Chemical's withdrawal from the YUKONG ARCO Chemical Ltd., joint venture in South Korea.

In 1993, increased sales volumes in ARCO Chemical's core products worldwide were offset by higher fixed costs associated with a new plant and maintenance expense resulting from turnarounds at three plants. Additional offsets included lower methyl tertiary butyl ether (MTBE) margins, primarily in Europe and lower overall propylene oxide (PO) and derivative margins as a result of lower margins for new products and continued weakness in the European economy.

The 1992 earnings improved, compared to 1991, as a result of higher sales volumes and margins. Sales volumes for all major product groups, including PO derivatives and MTBE, were higher in 1992 than 1991. PO margins were higher in 1992, primarily in Europe, reflecting a weaker dollar. MTBE sales volumes were higher in 1992, primarily in the U.S., as a result of higher demand from domestic gasoline refiners. MTBE margins were higher on average in 1992 in both the U.S. and Europe as a result of lower raw material costs.

ARCO Chemical's reported 1991 results included a $153 million before tax benefit from business interruption insurance related to a plant accident and to feedstock contamination at another plant in 1990. Also included in 1991 results were net pretax charges totaling $20 million reflecting personnel reductions and future environmental remediation costs, partially offset by a benefit related to a change in estimated accident charges.

Lyondell Petrochemical Company

ARCO's 49.9 percent equity share of Lyondell's net income was $13 million for 1993, $8 million for 1992 and $111 million for 1991. Lyondell's results in 1993 improved as a result of higher margins attained through the processing of greater volumes of Venezuelan crude oil. Lyondell's 1992 earnings, compared to 1991, were lower as a result of lower olefins margins and volumes and reduced refining margins in the Gulf Coast.

Unallocated Expenses and Other

Unallocated expenses and other was a net after-tax expense of $140 million in 1993 and $60 million in 1991 compared to a net after-tax benefit of $25 million in 1992. The increase in unallocated expenses in 1993, compared to 1992, reflected the absence of a $111 million after-tax gain recognized in 1992, increased employee-related expenses, higher charges for future environmental remediation, and lower net investment income. In 1992, unallocated expenses and other included the recognition of a $111 million after-tax gain representing a previously deferred portion of the gain from the 1989 sale of a majority interest in Lyondell, partially offset by corporate staff expense and charges for future environmental remediation. The 1991 unallocated expenses and other included after-tax charges of $34 million for future environmental remediation and higher insurance costs.

Recent Developments

On January 28, 1994, Vastar Resources, Inc. (Vastar), a wholly owned subsidiary of ARCO, filed a registration statement on Form S-1 with the Securities and Exchange Commission for the proposed sale of up to 17,250,000 shares of common stock to the public. ARCO intends to retain 80,000,001 shares, or 82.3 percent of Vastar's common stock. On December 7, 1993, Vastar borrowed $1.25 billion under a revolving credit agreement with a group of banks at an initial interest rate of 3.9 percent. The revolving line of credit is available until November 30, 1996.

Financial Position and Liquidity

Cash flows from operating activities were $2.8 billion in 1993, $3.1 billion in 1992 and $3.0 billion in 1991. The net cash used in investing activities was $2.2 billion in 1993 and primarily included expenditures for additions to fixed assets (including dry hole costs) of $2.1 billion, proceeds from asset sales of $582 million and a net increase in short-term investments of $789 million. The net cash used in financing activities was $431 million in 1993 and primarily included repayments of long-term debt of $886 million, proceeds of $1.3 billion from the issuance of long-term debt and dividend payments of $879 million.

Cash and cash equivalents and short-term investments totaled $3.7 billion at year-end 1993 and short-term borrowings were $1.5 billion. Working capital was $1.1 billion higher at the end of 1993, reflecting an increase in

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short-term investments and a decrease in long-term debt due within one year. At December 31, 1993, the Corporation had unused committed bank credit facilities totaling $3.2 billion. In addition, ARCO Chemical had unused bank credit facilities totaling $300 million.

The Corporation's 1994 capital spending program includes $1.9 billion for additions to fixed assets. Future capital expenditures remain subject to business conditions affecting the industry, particularly changes in price and demand for crude oil, natural gas and petroleum products. Changes in the tax laws, the imposition of and changes in federal and state clean air and clean fuel requirements, and other changes in environmental rules and regulations may also affect future capital expenditures.

It is expected that future cash requirements for capital expenditures, dividends and debt repayments will come from cash generated from operating activities, existing cash balances, and any asset sales and future financings.

ENVIRONMENTAL MATTERS

During 1993, the Corporation charged to income $172 million before tax for environmental remediation costs and made related payments of $206 million. At December 31, 1993, the environmental remediation reserve totaled $648 million. The amount reserved represents an estimate of the undiscounted costs which the Corporation will incur to remediate sites with known contamination. In view of the uncertainties associated with estimating these costs, such as uncertainties with respect to the appropriate method for remediating contaminated sites, the extent of contamination at various sites, and the Corporation's ultimate share of costs at various sites, actual future costs could exceed the amount accrued by as much as $1 billion.

Although the contingencies associated with environmental matters could result in significant expenses or judgments that, if aggregated and assumed to occur within a single fiscal year, would be material to the Corporation's results of operations, the likelihood of such occurrence is considered remote. On the basis of management's best assessment of the ultimate amount and timing of these events, such expenses or judgments are not expected to have a material adverse effect on the Corporation's consolidated financial position, stockholders' equity, liquidity or capital resources.

In addition to the provision for environmental remediation costs, $788 million has been accrued for the estimated cost, net of salvage value, of dismantling facilities as required by contract, regulation or law, and the estimated costs of restoration and reclamation of land associated with such facilities.

For further discussion of environmental matters see Note 12 of Notes to Consolidated Financial Statements.

EFFECTS OF INFLATION

While the annual rate of inflation remained moderate during the three-year period ended December 31, 1993, the Corporation continued to experience certain inflationary effects. The Corporation will achieve some benefits by using current, inflated dollars to satisfy its debt obligations and other monetary liabilities, because the Corporation's monetary assets are less than its monetary liabilities at December 31, 1993.

Based on the age of the Corporation's property, plant and equipment, it is estimated that the replacement cost of those assets is greater than the historical cost reflected in the Corporation's financial statements. Accordingly, the Corporation's depreciation, depletion and amortization expense for the three years ended December 31, 1993, would be greater if the expense were stated on a current-cost basis.

To the extent that the Corporation uses the last-in, first-out (LIFO) inventory accounting method, the replacement cost of inventory is greater than the historical cost reflected on the Corporation's balance sheet, while the costs of products sold reflected in the Corporation's income statement approximate current cost.

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Consolidated Statement of Income and Retained Earnings

Millions of dollars, except per share amounts	For the year ended December 31, 1993	1992	1991
Revenues			
Sales and other operating revenues (including excise taxes)	$18,487	$18,668	$18,191
Income from equity investments	40	22	119
Interest	164	182	261
Other revenues	492	376	385
	19,183	19,248	18,956
Expenses			
Trade purchases	7,224	7,263	7,022
Operating expenses	3,293	3,174	3,078
Exploration expenses (including undeveloped lease amortization)	667	567	593
Selling, general and administrative expenses	1,828	1,724	1,763
Taxes other than excise and income taxes	1,147	1,203	1,131
Excise taxes	1,298	1,165	1,120
Depreciation, depletion and amortization	1,718	1,754	1,694
Interest	715	762	892
Unusual items	659	(271)	503
	18,549	17,341	17,796
Income before income taxes, minority interest and cumulative effect of changes in accounting principles	634	1,907	1,160
Provision for taxes on income	327	678	420
Minority interest in earnings of subsidiaries	38	36	31
Income before cumulative effect of changes in accounting principles	269	1,193	709
Cumulative effect of changes in accounting principles	—	(392)	—
Net income	$ 269	$ 801	$ 709
Earned per Share			
Before cumulative effect of changes in accounting principles	$ 1.66	$ 7.39	$ 4.39
Cumulative effect of changes in accounting principles	—	(2.43)	—
Net income per share	$ 1.66	$ 4.96	$ 4.39
Retained Earnings			
Balance, January 1	$ 5,918	$ 5,990	$ 6,837
Net income	269	801	709
Cash dividends:			
Preference stocks	(3)	(3)	(3)
Common stock	(876)	(870)	(869)
Cancellation of treasury stock	—	—	(684)
Balance, December 31	$ 5,308	$ 5,918	$ 5,990

See Notes on pages 30 through 41.

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Consolidated Balance Sheet

Millions of dollars	December 31, 1993	1992
Assets		
Current assets:		
Cash and cash equivalents	$ 1,458	$ 1,414
Short-term investments	2,289	1,501
Accounts receivable	1,333	1,511
Inventories	914	963
Prepaid expenses and other current assets	237	257
Total current assets	6,231	5,646
Investments and long-term receivables:		
Investments accounted for on the equity method	266	318
Other investments and long-term receivables	221	210
	487	528
Fixed assets:		
Property, plant and equipment	31,494	31,798
Less accumulated depreciation, depletion and amortization	15,628	14,882
	15,866	16,916
Deferred charges and other assets	1,310	1,166
Total assets	$23,894	$24,256
Liabilities and Stockholders' Equity		
Current liabilities:		
Notes payable	$ 1,510	$ 1,494
Accounts payable	1,091	1,263
Taxes payable, including excise taxes	272	267
Long-term debt due within one year	165	676
Accrued interest	190	224
Other	1,107	897
Total current liabilities	4,335	4,821
Long-term debt	7,089	6,227
Deferred income taxes	2,779	2,982
Other deferred liabilities and credits	3,177	3,177
Minority interest	387	328
Stockholders' equity:		
Preference stocks	1	1
Common stock, $2.50 par value; shares issued 160,746,125 (1993), 160,745,937 (1992); shares outstanding 159,953,980 (1993), 158,922,188 (1992)	402	402
Capital in excess of par value of stock	661	676
Retained earnings	5,308	5,918
Pension liability adjustment	(29)	—
Treasury stock, at cost	(83)	(191)
Foreign currency translation	(133)	(85)
Total stockholders' equity	6,127	6,721
Total liabilities and stockholders' equity	$23,894	$24,256

The Corporation follows the successful efforts method of accounting for oil and gas producing activities.

See Notes on pages 30 through 41.

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Consolidated Statement of Cash Flows

Millions of dollars	For the year ended December 31, 1993	1992	1991
Cash Flows from Operating Activities:			
Net income	$ 269	$ 801	$ 709
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation, depletion and amortization	1,718	1,754	1,694
Dry hole expense and undeveloped leasehold amortization	419	331	330
Net gains on asset sales	(204)	(162)	(28)
Income from equity investments	(40)	(22)	(119)
Dividends from equity investments	97	111	112
Transition obligation for postretirement benefits	—	697	—
Noncash provisions greater (less) than cash payments	513[a]	(207)	440[b]
Net change in deferred taxes	(203)	(242)	(216)
Net change in accounts receivable, inventories and accounts payable	55	109	9
Net change in other working capital accounts	201	(162)	21
Other	(58)	71[a]	12
Net cash provided by operating activities	2,767	3,079	2,964
Cash Flows from Investing Activities:			
Additions to fixed assets (including dry hole costs)	(2,070)	(2,278)	(3,239)
Net cash provided (used) by short-term investments	(789)	(180)	608
Proceeds from asset sales	582	553	117
Investments and long-term receivables	(6)	(93)	(205)
Other	46	(117)	48
Net cash used by investing activities	(2,237)	(2,115)	(2,671)
Cash Flows from Financing Activities:			
Repayments of long-term debt	(886)	(834)	(957)
Proceeds from issuance of long-term debt	1,255	1,112	1,079
Net cash provided (used) by notes payable	30	(199)	873
Dividends paid	(879)	(873)	(872)
Treasury stock purchases	—	—	(204)
Treasury stock contributed to benefit plans	81	110	—
Other	(32)	(32)	(31)
Net cash used by financing activities	(431)	(716)	(112)
Effect of exchange rate changes on cash	(55)	(62)	(55)
Net increase in cash and cash equivalents	44	186	126
Cash and cash equivalents at beginning of year	1,414	1,228	1,102
Cash and cash equivalents at end of year	$1,458	$1,414	$1,228

(a) Includes noncash unusual items of $659 and ($149) in 1993 and 1992, respectively.
(b) Includes noncash unusual items of $476.
See Notes on pages 30 through 41.

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NOTE 1 *Accounting Policies*

ARCO's accounting policies conform to generally accepted accounting principles, including the "successful efforts" method of accounting for oil and gas producing activities.

Principles of Consolidation

The consolidated financial statements include the accounts of all subsidiaries, ventures and partnerships in which a controlling interest is held, including ARCO Chemical Company (ACC), of which ARCO owned 83.3 percent of the outstanding shares at December 31, 1993. ARCO also consolidates its interests in undivided interest pipeline companies and in oil and gas and coal mining joint ventures. ARCO uses the equity method of accounting for companies where its ownership is between 20 and 50 percent and for other ventures and partnerships in which less than a controlling interest is held.

Cash Equivalents; Short-Term Investments

Cash equivalents consist of highly liquid investments, such as time deposits, certificates of deposit and marketable securities other than equity securities, maturing within three months of purchase. Short-term investments consist of similar investments maturing in more than three months of purchase. Cash equivalents and short-term investments are stated at cost, which approximates market value.

Oil and Gas Unproved Property Costs

Unproved property costs are capitalized and amortized on a composite basis, considering past success experience and average property life. In general, costs of properties surrendered or otherwise disposed of are charged to accumulated amortization. Costs of successful properties are transferred to developed properties.

Fixed Assets

Fixed assets are recorded at cost and are written off on either a unit-of-production method or a straight-line method based on the expected lives of individual assets or groups of assets.

Upon disposal of assets depreciated on an individual basis, residual cost less salvage is included in current income. Upon disposal of assets depreciated on a group basis, unless unusual in nature or amount, residual cost less salvage is charged against accumulated depreciation.

Dismantlement, Restoration and Reclamation Costs

The estimated costs, net of salvage value, of dismantling facilities or projects with limited lives or facilities that are required to be dismantled by contract, regulation or law, and the estimated costs of restoration and reclamation associated with oil and gas and mining operations are accrued during production and classified as a long-term liability. Such costs are taken into account in determining the cost of production in all operations, except oil and gas production, in which case such costs are considered in determining depreciation, depletion and amortization.

Environmental Remediation

Environmental remediation costs are accrued as operating expenses based on the estimated timing and extent of remedial actions required by applicable governmental authorities, experience gained from similar sites on which remediation has been completed, and the amount of ARCO's liability in consideration of the proportional liability and financial wherewithal of other responsible parties. Estimated liabilities are not discounted to present value.

Reclassifications

Certain previously reported amounts have been restated to conform to classifications adopted in 1993.

NOTE 2 *Unusual Items*

In the fourth quarter of 1993, ARCO announced a reorganization of its Lower 48 oil and gas operations. ARCO provided as unusual items a pretax charge of $659 million, $404 million after tax, primarily related to the writedown for sale or other disposition of oil and gas properties and excess office space, in addition to workforce reductions.

In the fourth quarter of 1992, ARCO recognized a pretax benefit of $149 million from the settlement with Iran related to Corporation assets that had been nationalized in the late 1970s. In the second quarter of 1992, ARCO recognized a pretax benefit of $178 million related to a portion of the gain from the 1989 sale of a majority interest in Lyondell Petrochemical Company (Lyondell) which was previously deferred as the amount equal to ARCO's guarantee of notes associated with certain of Lyondell's manufacturing facilities. When Lyondell repaid the notes in 1992, ARCO was released from its guarantee and accordingly recognized the gain. In the second quarter of 1992, ARCO also recognized a pretax charge of $56 million resulting from ACC's withdrawal from the YUKONG ARCO Chemical Ltd. joint venture in Korea. The net benefit related to 1992 unusual items was $211 million after tax.

In 1991, ARCO announced a reorganization of its oil and gas operations in the Lower 48 states and a company-wide workforce reduction. An estimated pretax charge of $281 million was provided as unusual items for the

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cost of these programs. ARCO also provided as unusual items a pretax charge of approximately $222 million for the anticipated loss on the sale of certain Lower 48 oil and gas properties and the writedown of certain coal assets. The net provision related to the above items was $312 million after tax.

NOTE 3 *Accounting Changes*

Effective January 1, 1992, ARCO implemented on the immediate recognition basis Statement of Financial Accounting Standards (SFAS) No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," which requires accrual of the actuarially determined costs of postretirement benefits during the years that the employee renders the necessary service. ARCO's previous policy was to expense these costs when incurred.

The cumulative effect of adopting SFAS No. 106 as of January 1, 1992, resulted in a charge of $435 million, or $2.70 per share, to 1992 earnings, net of income tax effects of approximately $262 million.

Effective January 1, 1992, ARCO adopted SFAS No. 109, "Accounting for Income Taxes." The cumulative effect of the change on 1992 net income was a benefit of $43 million, or $0.27 per share. The effect of adopting SFAS Nos. 106 and 109 on 1992 net income, excluding the cumulative effect, was not material.

Effective January 1, 1992, ARCO also adopted SFAS No. 112, "Employers' Accounting for Postemployment Benefits." The standard requires companies to accrue the cost of postemployment benefits either during the years that the employee renders the necessary service or at the date of the event giving rise to the benefit, depending upon whether certain conditions are met. The effect of adoption did not have a material impact on 1992 net income.

NOTE 4 *Segment Information*

ARCO operates primarily in the Resources and Products segments. The Resources segment includes oil and gas operations, which comprise the exploration, development and production of petroleum, including petroleum liquids (crude oil, condensate and natural gas liquids) and natural gas; the purchase and sale of petroleum liquids and natural gas; and the mining and sale of coal. The Products segment includes the refining and transportation of petroleum and petroleum products; the marketing of petroleum products; and the manufacture and sale of intermediate chemicals and specialty products, including propylene oxide and derivatives, tertiary butyl alcohol, methyl tertiary butyl ether and styrene monomer.

Segment information for the years ended December 31, 1993, 1992 and 1991 was as follows:

Millions of dollars	1993	1992	1991
SALES AND OTHER OPERATING REVENUES			
Resources:			
Oil and gas	$ 8,357	$ 8,994	$ 8,859
Coal	648	585	597
Products:			
Refining and marketing	8,603	8,461	7,989
Transportation	878	900	849
Intermediate chemicals and specialty products	5,192	5,100	2,990
Other	28	24	30
Elimination of intersegment amounts	(3,219)	(3,396)	(3,123)
Total	$18,487	$18,668	$18,191

Intersegment sales were made at prices approximating current market values. The amounts for intersegment sales included in sales and other operating revenues were as follows:

Millions of dollars	1993	1992	1991
Resources:			
Oil and gas	$2,592	$2,853	$2,694
Products:			
Refining and marketing	19	16	19
Transportation	585	419	346
Intermediate chemicals and specialty products	195	104	41
Other	28	24	23
Total	$3,219	$3,396	$3,123

Millions of dollars	1993	1992	1991
PRETAX SEGMENT EARNINGS			
Resources:			
Oil and gas	$ 114	$1,183	$ 841
Coal	160	107	25
Products:			
Refining and marketing	369	547	394
Transportation	327	378	333
Intermediate chemicals and specialty products	412	396	377
Equity in earnings from Lyondell Petrochemical Company	15	8	111
Unallocated expenses and other	(246)	50	(29)
Interest	(715)	(762)	(892)
Income taxes	(327)	(678)	(420)
Minority interest	(38)	(56)	(51)
Cumulative effect of changes in accounting principles	—	(392)	—
Net income	$ 269	$ 801	$ 709

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Millions of dollars	1993	1992	1991
AFTER-TAX SEGMENT EARNINGS			
Resources:			
Oil and gas	$ 45	$ 816	$ 549
Coal	107	85	33
Products:			
Refining and marketing	307	346	266
Transportation	189	239	212
Intermediate chemicals and specialty products[a]	239	210	192
Equity in earnings from Lyondell Petrochemical Company	15	8	111
Unallocated expenses and other	(140)	25	(60)
Interest	(491)	(534)	(594)
Cumulative effect of changes in accounting principles	—	(392)	—
Net income	$ 269	$ 801	$ 709

(a) Net of minority interest of $(36), $(32), and $(31) in 1993, 1992 and 1991, respectively.

Millions of dollars	1993	1992	1991
TOTAL ASSETS			
Resources:			
Oil and gas	$ 9,349	$10,562	$11,351
Coal	1,320	1,411	1,095
Products:			
Refining and marketing	2,789	2,830	2,732
Transportation	2,145	2,191	2,223
Intermediate chemicals and specialty products	3,502	3,599	3,676
Other	4,789	3,863	3,415
Total	$23,894	$24,256	$24,492
ADDITIONS TO FIXED ASSETS			
Resources:			
Oil and gas	$ 1,385	$ 1,249	$ 1,890
Coal	94	308	305
Products:			
Refining and marketing	345	315	448
Transportation	59	94	124
Intermediate chemicals and specialty products	181	295	435
Other	8	17	37
Total	$ 2,070	$ 2,278	$ 3,239
DEPRECIATION, DEPLETION AND AMORTIZATION			
Resources:			
Oil and gas[a]	$ 1,092	$ 1,176	$ 1,203
Coal	59	53	46
Products:			
Refining and marketing	200	178	161
Transportation	104	98	94
Intermediate chemicals and specialty products	225	199	164
Other	40	50	26
Total	$ 1,718	$ 1,754	$ 1,694

(a) Excludes undeveloped leasehold amortization of $90, $110, and $113, respectively, included in exploration expense.

Foreign operations are conducted principally in the following geographic regions: Oil and gas — United Kingdom, Indonesia and Dubai; Coal — Australia; Intermediate chemicals and specialty products — Europe and Asia Pacific; Refining and marketing — Brazil (marketing only). The Brazilian operations were sold in December 1993.

Millions of dollars	1993	1992	1991
FOREIGN OPERATIONS			
Sales and other operating revenues:			
Oil and gas	$ 998	$ 952	$ 980
Coal	304	282	293
Refining and marketing[c]	1,920	1,794	1,751
Intermediate chemicals and specialty products	1,122	1,255	1,172
Other	29	23	23
Elimination of intersegment amounts — oil and gas	—	—	(11)
Total	$4,373	$4,306	$4,208
Net income (loss):			
Oil and gas	$ (17)	$ (71)[a]	$ 79
Coal	59	41	(16)
Refining and marketing[c]	2	28	57
Intermediate chemicals and specialty products[b]	58	37	22
Other	(25)	(26)	(38)
Total	$ 77	$ 251	$ 104
Total assets:			
Oil and gas	$2,691	$2,415	$2,466
Coal	821	901	693
Refining and marketing[c]	—	301	305
Intermediate chemicals and specialty products	1,424	1,567	1,731
Other	230	233	710
Total	$5,166	$5,417	$5,905

(a) Includes gain from settlement on assets nationalized by Iran (Note 2).
(b) Includes losses of equity affiliates, principally Asian joint ventures, of $(2), $(18), and $(22), in 1993, 1992 and 1991, respectively.
(c) Operations sold in December 1993.

NOTE 5 *Inventories*

Inventories are recorded when purchased, produced or manufactured and are stated at the lower of cost or market. In 1993, approximately 88 percent of inventories excluding materials and supplies were determined by the last-in, first-out (LIFO) method. Materials and supplies and other non-LIFO inventories are determined predominantly on an average cost basis.

Total inventories at December 31, 1993 and 1992 comprised the following categories:

Millions of dollars	1993	1992
Crude oil and petroleum products	$266	$283
Chemical products	373	375
Other products	32	42
Materials and supplies	243	263
Total	$914	$963

The excess of the current cost of inventories over book value was approximately $228 million and $285 million at December 31, 1993 and 1992, respectively.

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Note 5 *Taxes*

Taxes other than excise and income taxes for the years ended December 31, 1993, 1992 and 1991 comprised the following:

Millions of dollars	1993	1992	1991
Property	$ 198	$ 205	$ 206
Production/severance	331	389	406
Value added	349	330	250
Other	269	279	269
Total	$1,147	$1,203	$1,131

The components of the provision for taxes on income for the years ended December 31, 1993, 1992 and 1991 were as follows:

Millions of dollars	1993	1992	1991
Federal:			
Current	$382	$292	$355
Deferred	(159)	198	(66)
	223	490	289
Foreign:			
Current	69	80	104
Deferred	13	17	(36)
	82	97	68
State:			
Current	33	42	76
Deferred	(11)	49	(13)
	22	91	63
Total provision for taxes on income	$327	$678	$420
Total income taxes paid in cash	$510	$675	$776

The deferred tax benefit in 1993 and 1991 primarily resulted from book accruals associated with the reorganizations and workforce reductions.

The major components of the net deferred tax liability as of December 31, 1993 and 1992, and January 1, 1992 were as follows:

Millions of dollars	December 31 1993	December 31 1992	January 1 1992
Depreciation, depletion and amortization	$(3,630)	$(3,754)	$(3,754)
Other	(329)	(306)	(312)
Total deferred tax liabilities	(3,959)	(4,040)	(4,066)
Dismantlement and environmental	492	474	481
Postretirement benefits	302	277	262
Foreign excess tax basis/ loss carryforwards	197	165	130
Other	316	244	327
Total deferred tax assets	1,307	1,160	1,200
Valuation allowance	(127)	(102)	(54)
Net deferred income tax liability	$(2,779)	$(2,982)	$(2,900)

ARCO has foreign loss carryforwards of $227 million which begin expiring in 1994.

The domestic and foreign components of income before income taxes, minority interest and cumulative effect of changes in accounting principles, and a reconciliation of income tax expense with tax at the effective federal statutory rate for the years ended December 31, 1993, 1992 and 1991 were as follows:

Millions of dollars	Amount	Percent of Pretax Income
1993		
Income before income taxes:		
Domestic	$ 342	55.9
Foreign	292	46.1
Total	$ 634	100.0
Tax at 35%	$ 222	35.0
Increase (reduction) in taxes resulting from:		
Dividend exclusion	7	1.1
Impact of federal rate increase on deferred tax liability	65	10.3
Taxes on foreign income in excess of statutory rate	74	11.7
Sale of foreign subsidiary	37	5.8
Foreign deferred tax asset recognition	(26)	(4.1)
State income taxes (net of federal effect)	14	2.2
Tax credits	(49)	(7.7)
Other	(17)	(2.7)
Provision for taxes on income	$ 327	51.6
1992		
Income before income taxes:		
Domestic	$1,449	76.0
Foreign	458	24.0
Total	$1,907	100.0
Tax at 34%	$ 648	34.0
Increase (reduction) in taxes resulting from:		
Dividend exclusion	12	.6
Taxes on foreign income in excess of statutory rate	25	1.3
State income taxes (net of federal effect)	60	3.2
Tax credits	(43)	(2.2)
Other	(24)	(1.3)
Provision for taxes on income	$ 678	35.6
1991		
Income before income taxes:		
Domestic	$ 900	77.6
Foreign	260	22.4
Total	$1,160	100.0
Tax at 34%	$ 394	34.0
Increase (reduction) in taxes resulting from:		
Dividend exclusion	(30)	(2.6)
Taxes on foreign income in excess of statutory rate	54	4.7
State income taxes (net of federal effect)	42	3.6
Tax credits	(36)	(3.1)
Other	(4)	(.4)
Provision for taxes on income	$ 420	36.2

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NOTE 7 *Long-Term Debt*

Long-term debt at December 31, 1993 and 1992 comprised the following:

millions of dollars	1993	1992
5¼%, due in 1997	$ 18	$ 23
5.90%, due in 2007	265	265
6¼%, due in 1996	102	102
7.70%, due in 2000	51	51
7¼%, due in 2003	52	124
8¼%, due in 2022	250	250
8⅛%, due in 2012	250	250
8¾%, due in 2000	—	76
8¼%, due in 2032	250	250
9%, due in 2021	300	300
9%, due in 2031	150	150
9⅛%, due in 1995	—	200
9¼%, due in 2011	300	300
9⅛%, due in 2031	350	350
9¼%, due in 1993	—	250
9¼%, due in 1996	—	150
9⅜%, due in 2016	450	450
10¼%, due in 2000	250	250
10¾%, due in 1995	500	500
10¾%, due in 2005	500	500
Third Series Medium-Term Notes	137	137
Medium-Term Notes — A Series	200	200
Medium-Term Notes — B Series	250	250
ARCO Tresop Notes	311	311
ARCO Chemical Company:		
9.35%, due in 2019	—	125
9.375%, due in 2005	100	100
9.8%, due in 2020	224	224
9.9%, due in 2000	200	200
10.25%, due in 2010	100	100
Medium-Term Notes	—	35
French bank loans	94	117
ACNL bank loans	155	165
Vastar bank loans	1,250	—
Capitalized lease obligations	26	26
Other	204	256
Total, including debt due within one year	7,269	7,035
Less:		
Debt due within one year	165	676
Bonds held in sinking fund	15	132
Long-term debt	$7,089	$6,227

Maturities and sinking fund obligations for the five years subsequent to December 31, 1993 are as follows (millions of dollars): 1994 — $165; 1995 — $632; 1996 — $1,434; 1997 — $269; 1998 — $182. No material amounts of long-term debt are collateralized by Corporation assets.

Vastar Resources, Inc. (Vastar), a wholly owned subsidiary of ARCO, entered into a $1.25 billion unsecured, variable rate, revolving-term credit agreement. In December 1993, Vastar borrowed $1.25 billion principal amount at an initial interest rate of 3.9 percent. The agreement contains restrictions which, among other things, require Vastar to maintain certain financial ratios and restrict encumbrance of assets.

NOTE 8 *Bank Credit Facilities and Compensating Balances*

In 1993, ARCO and certain wholly owned subsidiaries had commited bank credit facilities of approximately $3.2 billion, including a credit facility negotiated on behalf of a subsidiary that is denominated in pounds sterling. At December 31, 1993, there were no borrowings under these commited facilities.

ACC maintains two credit facilities under which it may borrow up to $300 million which are not guaranteed by ARCO. At December 31, 1993, there were no borrowings against the ACC credit facilities. The facilities replace a previous facility that effectively expired in December 1993.

Notes payable on the balance sheet consist primarily of commercial paper issued to a variety of financial investors and institutions and any amounts outstanding under ARCO or ACC credit facilities.

ARCO has no requirements for compensating balances. ARCO does maintain balances for some of its banking services and products. Such balances are solely at ARCO's discretion, so that on any given date, none of ARCO's cash is restricted.

At December 31, 1993, ARCO had letters of credit outstanding totalling $305 million.

NOTE 9 *Interest Expense*

Interest expense for the years ended December 31, 1993, 1992 and 1991 was comprised of the following:

millions of dollars	1993	1992	1991
Long-term debt	$573	$624	$684
Short-term debt	92	105	92
Other	106	148	195
	771	877	971
Capitalized interest	(56)	(115)	(79)
Total interest expense	$715	$762	$892
Total interest paid in cash	$749	$752	$912

NOTE 10 *Foreign Currency Transaction Gains*

Foreign exchange transactions, which relate primarily to Brazilian operations, resulted in net gains of $22 million, $1 million and $41 million in 1993, 1992 and 1991, respectively.

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NOTE 11 *Fixed Assets*

Property, plant and equipment, and related accumulated depreciation, depletion and amortization at December 31, 1993 and 1992 were as follows:

Millions of dollars	1993	1992
Resources:		
Oil and gas	$19,100	$19,543
Coal	1,296	1,324
Products:		
Refining and marketing	5,647	5,600
Transportation	5,588	5,546
Intermediate chemicals and specialty products	5,257	5,165
Other	606	620
	31,494	31,798
Accumulated depreciation, depletion and amortization	15,628	14,882
Total	$15,866	$16,916

Expenses for maintenance and repairs for 1993, 1992 and 1991 were $509 million, $513 million and $523 million, respectively.

NOTE 12 *Other Commitments and Contingencies*

ARCO has commitments, including those related to the acquisition, construction and development of facilities, all made in the normal course of business.

At December 31, 1993 and 1992, there were contingent liabilities primarily with respect to guarantees of securities of other issuers of approximately $111 million and $100 million, respectively, of which approximately $41 million and $45 million, respectively, were indemnified.

Following the March 1989 EXXON VALDEZ oil spill, Alyeska Pipeline Service Company (Alyeska) and Alyeska's owner companies were the subject of numerous lawsuits by the State of Alaska, the United States and private plaintiffs. ARCO Transportation Alaska, Inc. (ATA) owns approximately 21 percent of Alyeska. In July 1993, it was announced that Alyeska and its owner companies had agreed to pay $98 million in settlement of all but a handful of the lawsuits by private plaintiffs, of which $20.9 million was ATA's share. At the October 1993 approval hearing on the settlement, the settlement was tentatively approved; however, there remain certain issues concerning claims that Exxon might assert against Alyeska and its owner companies that must be resolved before the settlement becomes final.

ARCO and former producers of lead pigments have been named as defendants in cases filed by a municipal housing authority, a purported class and several individuals seeking damages and injunctive relief as a consequence of the presence of lead-based paint in certain housing units.

ARCO and its subsidiary, Atlantic Richfield Hanford Company (ARHCO), and several other companies have been named as defendants in lawsuits filed on behalf of individual persons and a number of purported classes. These lawsuits arise out of radioactive and non-radioactive toxic and hazardous substances allegedly generated at the Hanford Nuclear Reservation in Richland, Washington (HNR). The claims against ARCO and ARHCO arise out of the performance by ARHCO of a contract with the Atomic Energy Commission to provide chemical processing, waste management and support services at HNR from 1967 to 1977. ARCO and ARHCO believe that, should either or both ultimately be held liable, they will be entitled to indemnification by the federal government as provided under the Price-Anderson Act, and pursuant to the terms of the contract between ARHCO and the Atomic Energy Commission.

ARCO is also the subject of or party to a number of pending or threatened legal actions for which the legal responsibility and financial impact cannot presently be ascertained. Although any ultimate liability arising from any of these suits, or from any of the proceedings described above, if aggregated and assumed to occur in a single fiscal year, would be material to ARCO's results of operations, the likelihood of such occurrence is considered remote. On the basis of management's best assessment of the ultimate amount and timing of these events, such expenses or judgments are not expected to have a material adverse effect on ARCO's consolidated financial position, stockholders' equity, liquidity or capital resources.

ARCO is subject to other loss contingencies pursuant to federal, state and local environmental laws and regulations. These include possible obligations to remove or mitigate the effects on the environment of the disposal or release of certain chemical, mineral and petroleum substances at various sites, including the restoration of natural resources located at these sites and damages for loss of use and non-use values. ARCO is currently participating in environmental assessments and cleanups under these laws at federal Superfund and state-managed sites, as well as other clean-up sites, including service stations, refineries, terminals, chemical facilities, third-party landfills, former nuclear processing facilities, and sites

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associated with discontinued operations. ARCO may in the future be involved in additional environmental assessments and cleanups, including the restoration of natural resources and damages for loss of use and non-use values. The amount of such future costs is indeterminable due to such factors as the unknown nature and extent of contamination at many sites, the unknown timing, extent and method of the remedial actions which may be required and the determination of ARCO's liability in proportion to other responsible parties.

ARCO continues to estimate the amount of these costs in periodically establishing reserves based on progress made in determining the magnitude of remediation costs, experience gained from sites on which remediation has been completed, the timing and extent of remedial actions required by the applicable governmental authorities and an evaluation of the amount of ARCO's liability considered in light of the liability and financial wherewithal of the other responsible parties. At December 31, 1993, the reserve balance is $648 million. As the scope of ARCO's obligations becomes more clearly defined, there may be changes in these estimated costs, which might result in future charges against ARCO's earnings.

ARCO's reserve covers federal Superfund and state-managed sites as well as other clean-up sites, including service stations, refineries, terminals, chemical facilities, third-party landfills, former nuclear processing facilities and sites associated with discontinued operations. ARCO has been named a potentially responsible party (PRP) for 123 sites. The number of PRP sites in and of itself does not represent a relevant measure of liability, because the nature and extent of environmental concerns varies from site to site and ARCO's share of responsibility varies from sole responsibility to very little responsibility. ARCO reviews all of the PRP sites, along with other sites as to which no claims have been asserted, in estimating the amount of the reserve. ARCO's future costs at these sites could exceed the reserve by as much as $1 billion.

Approximately half of the reserve related to sites associated with ARCO's discontinued operations, primarily mining activities in the states of Montana and Colorado. Another significant component related to currently and formerly owned chemical, nuclear processing, and refining and marketing facilities, and other sites which received wastes from these facilities. The remainder related to other sites with reserves ranging from $1 million to $10 million per site. No one site represents more than 15 percent of the total reserve. Substantially all amounts accrued in the reserve are expected to be paid out over the next five to six years.

Claims for recovery of remediation costs already incurred and to be incurred in the future have been filed against various insurance companies and other third parties. None of these claims has been resolved. Due to the uncertainty as to ultimate recovery from these parties, ARCO has neither recorded any asset nor reduced any liability in anticipation of such recovery.

Environmental loss contingencies also include claims for personal injuries allegedly caused by exposure to toxic materials manufactured or used by ARCO. Although these contingencies could result in significant expenses or judgments that, if aggregated and assumed to occur within a single fiscal year, would be material to ARCO's results of operations, the likelihood of such occurrence is considered remote. On the basis of management's best assessment of the ultimate amount and timing of these events, such expenses or judgments are not expected to have a material adverse effect on ARCO's consolidated financial position, stockholders' equity, liquidity or capital resources.

The operations and consolidated financial position of ARCO continue to be affected from time to time in varying degrees by domestic and foreign political developments as well as legislation, regulations and litigation pertaining to restrictions on production, imports and exports, tax increases, environmental regulations, cancellation of contract rights and expropriation of property. Both the likelihood of such occurrences and their overall effect on ARCO vary greatly and are not predictable.

These uncertainties are part of a number of items that ARCO has taken and will continue to take into account in periodically establishing reserves.

NOTE 13 *Retirement Plans*

ARCO and its subsidiaries have defined benefit pension plans to provide pension benefits to substantially all employees. The benefits are based on years of service and the employee's compensation, primarily during the last three years of service. ARCO's funding policy is to make annual contributions as required by applicable regulations. ARCO charges pension costs as accrued, based on an actuarial valuation for each plan, and funds the plans through contributions to trust funds that are kept apart from Corporation funds.

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The following table sets forth the plans' funded status and amounts recognized in the balance sheet at December 31, 1993 and 1992:

Millions of dollars	Assets Exceed Accumulated Benefits	Accumulated Benefits Exceed Assets
1993		
Actuarial present value of benefit obligations:		
Vested benefit obligation	$2,007	$ 158
Accumulated benefit obligation	$2,054	$ 161
Projected benefit obligation	$2,420	$ 214
Plan assets at fair value, primarily stocks and bonds	2,720	—
Projected benefit obligation (in excess of) or less than plan assets	300	(214)
Unrecognized net (gain) loss	134	100
Prior service cost not yet recognized in net periodic pension cost	148	27
Remaining unrecognized (asset) obligation from January 1, 1986	(348)	9
Adjustment required to recognize minimum liability	—	(83)
Prepaid pension cost (pension liability) recognized in the balance sheet	$ 234	$(161)
1992		
Actuarial present value of benefit obligations:		
Vested benefit obligation	$1,626	$ 85
Accumulated benefit obligation	$1,638	$ 85
Projected benefit obligation	$1,828	$ 98
Plan assets at fair value, primarily stocks and bonds	2,445	—
Projected benefit obligation (in excess of) or less than plan assets	615	(98)
Unrecognized net (gain) loss	(178)	4
Prior service cost not yet recognized in net periodic pension cost	145	1
Remaining unrecognized (asset) obligation from January 1, 1986	(376)	10
Adjustment required to recognize minimum liability	—	(4)
Prepaid pension cost (pension liability) recognized in the balance sheet	$ 204	$ (87)

Pension costs related to ARCO-sponsored plans, on a pre-tax basis, including amortization of unfunded projected benefit obligations for the years ended December 31, 1993, 1992 and 1991 were as follows:

Millions of dollars	1993	1992	1991
Service cost-benefits earned during the period	$ 59	$ 51	$ 45
Interest cost on projected benefit obligation	173	133	137
Actual return on plan assets	(483)	(91)	(370)
Net amortization and deferral	220	(127)	201
Net periodic pension (benefit) cost	$ (31)	$ (34)	$ 11

In addition to the pension (benefit) cost above, in 1993 and 1991 ARCO recorded $61 million and $103 million, respectively, before tax as additional pension expense in connection with the workforce reductions in those years.

ARCO's assumptions used as of December 31, 1993, 1992 and 1991 in determining the pension cost and pension liability shown above were as follows:

Percent	1993	1992	1991
Discount rate	7.25	8.5	8.75
Rate of salary progression	5.0	5.0	5.0
Long-term rate of return on assets	10.5	10.5	9.5

NOTE 14 *Other Postretirement Benefits*

ARCO and its subsidiaries sponsor defined postretirement benefit plans to provide other postretirement benefits to substantially all employees who retire with ARCO having rendered the required years of service, along with their spouses and eligible dependents. Health care benefits are provided primarily through comprehensive indemnity plans. Currently, ARCO pays approximately 80 percent of the cost of such plans, but has the right to modify the cost-sharing provisions at any time. Life insurance benefits are based primarily on the employee's final compensation and are also partially paid for by retiree contributions, which vary based upon coverage chosen by the retiree.

ARCO's current policy is to fund the cost of postretirement health care and life insurance plans on a pay-as-you-go basis. Pursuant to Section 401(h) of the Internal Revenue Code of 1986, excess pension assets totalling $21 million were transferred from the pension plans to health care benefit accounts within the pension plans for reimbursement of 1992 retiree health care benefits.

The following table sets forth the plans' combined postretirement benefit liability as of December 31, 1993 and 1992:

Millions of dollars	Health Care	Life Insurance	Total
1993			
Accumulated postretirement benefit obligation:			
Retirees	$461	$158	$619
Employees fully eligible	35	12	47
Other active participants	211	47	258
Total	707	217	924
Unrecognized loss	(125)	(18)	(143)
Accrued postretirement benefit cost recognized in the balance sheet	$582	$199	$781
1992			
Accumulated postretirement benefit obligation:			
Retirees	$416	$155	$571
Employees fully eligible	27	8	35
Other active participants	133	32	165
Total	576	195	771
Unrecognized loss	(14)	(4)	(18)
Accrued postretirement benefit cost recognized in the balance sheet	$562	$191	$753

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ARCO charges postretirement benefit costs as accrued, based on actuarial calculations for each plan. Net annual postretirement benefit costs as of December 31, 1993 and 1992 included the following components:

Millions of dollars	Health Care	Life Insurance	Total
1993			
Service cost-benefits earned during the period	$15	$ 3	$18
Interest cost on accumulated postretirement benefit obligation	47	15	62
Net postretirement benefit cost	$62	$18	$80
1992			
Service cost-benefits earned during the period	$12	$ 3	$15
Interest cost on accumulated postretirement benefit obligation	46	15	61
Net postretirement benefit cost	$58	$18	$76

In addition to the cost above, ARCO recorded $9 million as additional postretirement benefit expense in connection with the workforce reduction in 1993.

For the year ended December 31, 1991, ARCO recognized postretirement costs as incurred. Accordingly, the amount recognized as expense in prior years is not comparable.

The significant assumptions used in determining postretirement benefit cost and the accumulated postretirement benefit obligation were as follows:

Percent	December 31 1993	December 31 1992	January 1 1992
Discount rate	7.25	8.5	8.75
Rate of salary progression	5.0	5.0	5.0

The weighted average annual assumed rate of increase in the per capita cost of covered benefits (i.e., health care trend rate) for the health plans is 10 percent for 1993 to 1996, 8 percent for 1997 to 2001, and 6 percent thereafter. The effect of a one-percentage-point increase in the assumed health care cost trend rate would increase the accumulated postretirement benefit obligation as of December 31, 1993, by approximately 10.5 percent, and the aggregate of the service and interest cost components of net annual postretirement benefit cost by approximately 11 percent.

NOTE 15 *Stockholders' Equity*

Detail of ARCO's capital stock as of December 31, 1993 and 1992 was as follows:

	1993	1992
$3.00 Cumulative convertible preference stock, par $1:		
Shares authorized	94,316	94,316
Shares issued and outstanding	81,309	90,377
Aggregate value in liquidation — (thousands)	$6,505	$7,230
$2.80 Cumulative convertible preference stock, par $1:		
Shares authorized	942,016	942,016
Shares issued and outstanding	854,053	916,653
Aggregate value in liquidation — (thousands)	$59,784	$64,166
Common stock, par $2.50:		
Shares authorized	600,000,000	600,000,000
Shares issued	160,746,125	160,745,937
Shares outstanding	159,953,980	158,922,188
Shares held in treasury	792,145	1,823,749

The changes in preference stocks outstanding were due solely to conversions. The $3.00 cumulative convertible preference stock is convertible into 6.8 shares of common stock. The $2.80 cumulative convertible preference stock is convertible into 2.4 shares of common stock. The common stock is subordinate to the preference stocks for dividends and assets. The $3.00 and $2.80 preference stocks may be redeemed at the option of ARCO for $82 and $70 per share, respectively.

ARCO has authorized 75,000,000 shares of preferred stock, $.01 par, of which none were issued or outstanding at December 31, 1993.

By stockholder approval, all of the Series B, 3.75 percent cumulative preferred stock, $100 par, of which none were issued and outstanding, was cancelled effective May 3, 1993.

By Board authorization, effective December 31, 1991, ARCO canceled 7 million shares of common stock held in treasury. As a result of this cancellation, common stock decreased by $17 million, capital in excess of par value of stock decreased by $30 million, and retained earnings decreased by $684 million in 1991.

The balance in ARCO's common stock at December 31, 1993, 1992 and 1991 was $402 million.

Detail of changes in treasury stock in 1993, 1992 and 1991 was as follows:

Millions of dollars	
Balance, January 1, 1991	$ 890
Treasury stock purchases	202
Conversions	(36)
Cancellation of treasury stock	(731)
Balance, December 31, 1991	325
Treasury stock contributed to benefit plans	(110)
Conversions	(24)
Balance, December 31, 1992	191
Treasury stock contributed to benefit plans	(81)
Conversions	(27)
Balance, December 31, 1993	$ 83

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The net decrease in capital in excess of par value of stock in 1993, 1992 and 1991 of $15 million, $12 million and $52 million, respectively, was due primarily to the conversion of preference stock to common stock and the cancellation of treasury stock in 1991.

ARCO's Certificate of Incorporation contains a provision restricting dividend payments; however, at December 31, 1993, retained earnings were free from such restriction. At December 31, 1993, shares of ARCO's authorized and unissued common stock were reserved as follows:

Conversions:	
$3.00 Preference stock	552,901
$2.80 Preference stock	2,049,727
Stock option plans	5,148,852
Employee benefit plans	9,974,482
Total	17,725,962

Under ARCO's incentive compensation plans, awards of ARCO's common stock may be made to officers, outside directors and key employees.

NOTE 16 *Earned per Share*

Earned per share is based on the average number of common shares outstanding during each period including common stock equivalents that consist of certain outstanding options and all outstanding convertible securities. The average shares used in the calculation of earned per share for the years ended December 31, 1993, 1992 and 1991 were 162.4 million, 161.5 million and 161.7 million, respectively.

NOTE 17 *Stock Options*

Options to purchase shares of ARCO's common stock have been granted to executives, outside directors and key employees. These options become exercisable in varying installments and expire ten years after the date of grant. Transactions during 1993, 1992 and 1991 were as follows:

Balance, January 1, 1991	1,681,133
Granted	528,686
Canceled or expired	(1,740)
Exercised (average option price per share: $77.67)	(199,988)
Balance, December 31, 1991	2,008,091
Granted	679,457
Exercised (average option price per share: $77.09)	(51,385)
Balance, December 31, 1992	2,636,163
Granted	574,726
Exercised (average option price per share: $81.74)	(48,707)
Balance, December 31, 1993	3,162,182
At December 31, 1993:	
Shares exercisable	2,249,912
Shares available for option (1,290,018 at December 31, 1992)	1,986,670
Average option price per share:	
Shares under option	$104.21
Shares exercisable	$101.04

NOTE 18 *Supplemental Cash Flow Information*

The following is supplemental cash flow information for the years ended December 31, 1993, 1992 and 1991:

Millions of dollars	1993	1992	1991
Short-term investments:			
Gross maturities	$ 5,428	$ 4,796	$ 7,480
Gross purchases	(6,217)	(4,976)	(6,872)
Net cash provided (used)	$ (789)	$ (180)	$ 608
Notes payable:			
Gross proceeds	$ 8,568	$ 7,380	$ 7,877
Gross repayments	(8,538)	(7,579)	(7,004)
Net cash provided (used)	$ 30	$ (199)	$ 873
Gross noncash provisions charged to income	$ 1,148	$ 353	$ 1,003
Cash payments of previously accrued items	(635)	(760)	(563)
Noncash provisions greater (less) than cash payments	$ 513	$ (207)	$ 440

NOTE 19 *Lease Commitments*

Commitments under capital financial leases are capitalized with the obligation recorded at the present value of future rental payments. The related assets are amortized on a straight-line basis.

At December 31, 1993, future minimum rental payments due under leases were as follows:

Millions of dollars	Capital Leases	Operating Leases
1994	$ 5	$157
1995	5	135
1996	5	115
1997	5	98
1998	5	85
Later years	76	338
Total minimum lease payments	91	$928
Imputed interest (rates ranging from 9.75% to 12.0%)	65	
Present value of minimum lease payments included in long-term debt	$26	

Minimum future rental income under noncancelable subleases at December 31, 1993 amounted to $98 million.

Operating lease net rental expense for the years ended December 31, 1993, 1992 and 1991 was as follows:

Millions of dollars	1993	1992	1991
Minimum rentals	$220	$206	$197
Contingent rentals	1	1	1
Sublease rental income	(15)	(18)	(16)
Net rental expense	$206	$189	$182

No restrictions on dividends or on additional debt or lease financing exist under ARCO's lease commitments. Under certain conditions, options and obligations exist to purchase certain leased properties.

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NOTE 20 *Lyondell Petrochemical Company*

Lyondell Petrochemical Company (Lyondell) is engaged in the manufacture, refining and marketing of basic commodity chemicals, including ethylene, propylene, methanol and aromatics, and petroleum products.

At December 31, 1993, ARCO owned 49.9 percent of Lyondell common stock outstanding; ARCO accounts for this investment on the equity method. The market value of ARCO's shares of Lyondell common stock, based on the closing quoted market price at December 31, 1993, was $848 million.

Summarized financial information for Lyondell was as follows:

Millions of dollars	1993	1992	1991
Year ended December 31:			
Revenues[a]	$3,850	$4,809	$5,735
Operating income	$ 93	$ 104	$ 399
Income before income taxes and cumulative effect of accounting changes	$ 16	$ 35	$ 339
Cumulative effect of changes in accounting principles	$ 22	$ (10)	—
Net income	$ 26	$ 16	$ 222
ARCO's equity in net income of Lyondell	$ 13	$ 8	$ 111
Cash dividends received from Lyondell	$ 54	$ 72	$ 70
At December 31:			
Current assets	$ 523	$ 568	
Noncurrent assets	$ 708	$ 647	
Current liabilities	$ 299	$ 345	
Long-term debt	$ 717	$ 725	
Other liabilities	$ 179	$ 151	
Minority interest	$ 124	—	
Stockholders' deficit[b]	$ (88)	$ (6)	

(a) Includes $278, $329 and $526 of sales to ARCO in 1993, 1992 and 1991, respectively, which approximated 4%, 5% and 8% of ARCO's purchases in those years.
(b) ARCO's investment in Lyondell comprises 49.9% of Lyondell's stockholders' deficit plus $72 of dividends received in excess of basis of investment.

NOTE 21 *Financial Instruments; Fair Value and Off-Balance-Sheet Risk*

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

The carrying amount of cash equivalents, short-term investments and notes payable approximates fair value because of the short maturity of those instruments.

The fair value of other investments and long-term receivables was estimated primarily based on quoted market prices for those or similar investments. At December 31, 1993 and 1992, the fair value of other investments and long-term receivables approximated carrying value.

The fair value of ARCO's long-term debt was estimated based on the quoted market prices for the same or similar issues or on the current rates offered to ARCO for debt of the same remaining maturities. At December 31, 1993 and 1992, the fair value of long-term debt, including long-term debt due within one year, was $8,307 million and $7,570 million, respectively.

The fair value of foreign currency forward contracts and derivatives was estimated by obtaining quotes from brokers. Fair value of these instruments at December 31, 1993 and 1992, approximated carrying value.

At December 31, 1993 and 1992, ARCO had foreign currency forward contracts and foreign cross-currency contracts outstanding, which mature at various dates, to reduce exposure to foreign currency exchange risk. The aggregate contract value of instruments used to buy U.S. dollars in exchange for Australian dollars was approximately $483 million and $367 million at December 31, 1993 and 1992, respectively. The aggregate contract value of instruments used to sell European currencies and Japanese yen in exchange for Deutsche marks, U.S. dollars and functional currencies of ARCO's European operations was approximately $24 million and $65 million at December 31, 1993 and 1992, respectively. Additionally, ARCO had outstanding foreign currency swaps which mature at various dates through 1994, to sell approximately 187 million French francs for $35 million at both December 31, 1993 and 1992.

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At December 31, 1993 and 1992, approximately $355 million and $405 million, respectively, of the long-term debt was denominated in foreign currencies. To reduce the exposure to foreign currency fluctuations, ARCO entered into a swap agreement on an 18 billion yen debt issue due in 1996 which fixes the principal balance at $102 million with an effective rate of 8.14 percent. At December 31, 1993, ARCO had outstanding interest rate swaps on two loans totalling 300 million Dutch guilders due in 1997 (one loan for 150 million Dutch guilders in 1992). This effectively changed both loans' floating interest rates to fixed rates of 5.70 percent and 6.71 percent (9.69 percent in 1992).

The counterparties to these transactions are major international financial institutions; ARCO does not anticipate nonperformance by the counterparties.

NOTE 22 ***Unaudited Quarterly Results***

Millions of dollars except per share amounts	1993	1992
Sales and other operating revenues (including excise taxes)		
Quarter ended:		
March 31	$ 4,507	$ 4,334
June 30	4,670	4,528
September 30	4,553	4,828
December 31	4,757	4,978
Total	$18,487	$18,668
Income (loss) before income taxes, minority interest and cumulative effect of changes in accounting principles		
Quarter ended:		
March 31	$ 442	$ 538
June 30	461	549 [a]
September 30	253	587
December 31	(502)[c]	433 [a]
Total	$ 654	$ 1,907
Net income (loss)		
Quarter ended:		
March 31	$ 260	$ (212)[b]
June 30	271	509 [a]
September 30	68	332
December 31	(330)[c]	572 [a,c]
Total	$ 269	$ 801
Earned per share		
Quarter ended:		
March 31	$ 1.60	$ (1.51)[b]
June 30	$ 1.67	$ 1.91
September 30	$ 0.42	$ 2.06
December 31	$ (2.06)	$ 2.30

(a) See Note 2.
(b) The impact of cumulative effect of changes in accounting principles resulted in a net after-tax charge of ($382) million, or ($2.43) per share.
(c) Includes $100 million benefit from reduced taxes resulting from adjustments for capital transactions and revisions of previously accrued taxes.

INDEPENDENT ACCOUNTANTS' REPORT

To the Stockholders and Board of Directors of Atlantic Richfield Company

We have audited the accompanying consolidated balance sheets of Atlantic Richfield Company as of December 31, 1993 and 1992, and the related consolidated statements of income and retained earnings and cash flows for each of the three years in the period ended December 31, 1993. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Atlantic Richfield Company as of December 31, 1993 and 1992, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1993, in conformity with generally accepted accounting principles.

As discussed in Note 3 to the consolidated financial statements, the Company changed its method of accounting for income taxes, postretirement benefits other than pensions and postemployment benefits in 1992.

Coopers & Lybrand
Los Angeles, California
February 11, 1994

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Oil and Gas Producing Activities

The Securities and Exchange Commission (SEC) defines proved oil and gas reserves as those estimated quantities of crude oil, natural gas, and natural gas liquids that geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. Proved developed oil and gas reserves are reserves that can be expected to be recovered through existing wells with existing equipment and operating methods.

ARCO reports reserve estimates to various federal government agencies and commissions. These estimates may cover various regions of crude oil and natural gas classifications within the United States and may be subject to mandated definitions. There have been no reports of total ARCO reserve estimates furnished to federal government agencies or commissions which vary from those reported to the SEC since the beginning of the last fiscal year.

Estimated quantities of ARCO's proved oil and gas reserves were as follows:

	Petroleum Liquids (million barrels)		Natural Gas (billion cubic feet)	
	Domestic	Foreign	Domestic	Foreign
January 1, 1991:				
Proved reserves	2,720	210	6,256	1,796
Proved developed reserves	2,152	134	5,343	475
December 31, 1991:				
Proved reserves	2,642	189	5,798	2,405
Proved developed reserves	2,094	131	5,069	534
December 31, 1992:				
Proved reserves	2,517	211	5,185	3,117
Proved developed reserves	1,915	122	4,552	690
December 31, 1993:				
Proved reserves	2,259	206	4,725	3,280
Proved developed reserves	1,804	127	4,190	1,120

The changes in proved reserves for the years ended December 31, 1991, 1992 and 1993 were as follows:

	Petroleum Liquids (million barrels)		Natural Gas (billion cubic feet)	
	Domestic	Foreign	Domestic	Foreign
Reserves at January 1, 1991	2,720	210	6,256	1,796
Revisions of estimates	(8)	3	42	69
Improved recovery	89	—	3	—
Purchases of minerals-in-place	137	2	27	247
Extensions and discoveries	35	2	213	392
Production	(244)	(28)	(511)	(95)
Consumed in production	—	—	(78)	(4)
Sales of minerals-in-place	(87)	—	(154)	—
Reserves at December 31, 1991	2,642	189	5,798	2,405
Revisions of estimates	40	22	22	44
Improved recovery	39	—	48	—
Purchases of minerals-in-place	35	—	37	—
Extensions and discoveries	100	29	145	761
Production	(242)	(28)	(440)	(88)
Consumed in production	—	—	(72)	(5)
Sales of minerals-in-place	(97)	(1)	(353)	—
Reserves at December 31, 1992	2,517	211	5,185	3,117
Revisions of estimates	(20)	15	(12)	(54)
Improved recovery	17	—	28	—
Purchases of minerals-in-place	3	—	30	—
Extensions and discoveries	10	11	186	350
Production	(221)	(29)	(332)	(117)
Consumed in production	—	—	(75)	(9)
Sales of minerals-in-place	(47)	(2)	(285)	(7)
Reserves at December 31, 1993	2,259	206	4,725	3,280

Significant changes to proved oil and gas reserves during 1993 were due to the addition of reserves from the Sirasun gas discovery in Indonesia, the Mustang Island gas discovery offshore Gulf of Mexico and the sale of Lower 48 oil and gas properties.

Estimates of petroleum reserves have been made by ARCO engineers. These estimates include reserves in which ARCO holds an economic interest under production-sharing and other types of operating agreements with foreign governments. These estimates do not include probable or possible reserves. Natural gas liquids comprise 12 percent of petroleum liquid proved reserves.

The sale of natural gas from the North Slope of Alaska, which is not used in providing fuel in North Slope operations or sold to others on the North Slope, is dependent upon construction of a natural gas transportation system or another marketing alternative. Such gas is not

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included in ARCO's reserves. There are currently several projects under consideration, including the Alaska Natural Gas Transportation System and the Trans Alaska Gas System. However, there are a number of regulatory, financial, legal and marketing questions regarding the projects that remain unresolved.

ARCO has studied various options for marketing North Slope gas over the past few years. However, ARCO Alaska believes that market conditions are not likely to permit implementation of any large gas sales project within the foreseeable future.

The aggregate amounts of capitalized costs relating to oil and gas producing activities and the related accumulated depreciation, depletion and amortization as of December 31, 1993, 1992 and 1991 were as follows:

	Proved Properties		Unproved Properties	
Millions of dollars	Domestic	Foreign	Domestic	Foreign
1993				
Gross	$14,521	$3,694	$595	$235
Accumulated depreciation, depletion and amortization	8,772	1,925	315	4
Net	$ 5,749	$1,769	$278	$231
1992				
Gross	$15,212	$3,369	$677	$196
Accumulated depreciation, depletion and amortization	8,821	1,718	77	1
Net	$ 6,391	$1,651	$600	$195
1991				
Gross	$16,700	$3,234	$747	$300
Accumulated depreciation, depletion and amortization	9,232	1,603	112	10
Net	$ 7,468	$1,631	$635	$290

Costs, both capitalized and expensed, incurred in oil and gas producing activities during the three years ended December 31, 1993, 1992 and 1991 were as follows:

Millions of dollars	Domestic	Foreign	Total
1993			
Property acquisition costs:			
Proved properties	$ —	$ 3	$ 3
Unproved properties	$ 59	$ 2	$ 61
Exploration costs	$351	$274	$625
Development costs	$435	$441	$876
1992			
Property acquisition costs:			
Proved properties	$ 13	$ 5	$ 18
Unproved properties	$ 41	$ 2	$ 43
Exploration costs	$362	$220	$582
Development costs	$395	$388	$783
1991			
Property acquisition costs:			
Proved properties	$508	$ 55	$563
Unproved properties	$ 50	$ 9	$ 59
Exploration costs	$374	$217	$591
Development costs	$619	$258	$877

Results of operations from oil and gas producing activities (including operating overhead) for the three years ended December 31, 1993, 1992 and 1991 were as follows:

Millions of dollars	Domestic	Foreign	Total
1993			
Revenues:			
Sales	$1,639	$ 807	$2,446
Transfers	1,616	—	1,616
Other	48	31	79
	3,303	838	4,141
Production costs	1,352	195	1,547
Exploration expenses	457	210	667
Depreciation, depletion and amortization	719	260	979
Other operating expenses	170	147	317
	605	26	631
Income tax expense	(252)	(49)	(301)
Results of operations from production activities	$ 353	$ (23)	$ 330
1992			
Revenues:			
Sales	$2,157	$ 800	$2,957
Transfers	1,842	—	1,842
Other	77	41	118
	4,076	841	4,917
Production costs	1,523	233	1,756
Exploration expenses	382	185	567
Depreciation, depletion and amortization	914	235	1,149
Other operating expenses	197	153	350
	1,060	55	1,115
Income tax expense	(395)	(52)	(427)
Results of operations from production activities	$ 665	$ 23	$ 688
1991			
Revenues:			
Sales	$2,503	$ 872	$3,375
Transfers	1,819	—	1,819
Other	77	41	118
	4,399	913	5,312
Production costs	1,645	229	1,874
Exploration expenses	415	178	593
Depreciation, depletion and amortization	941	236	1,177
Other operating expenses	260	138	398
	1,138	132	1,270
Income tax expense	(424)	(52)	(476)
Results of operations from production activities	$ 714	$ 80	$ 794

The difference between the above results of operations for 1993, 1992 and 1991 and the amounts reported for after-tax oil and gas segment earnings in Note 4 of Notes to Consolidated Financial Statements is primarily marketing-related activities and the exclusion of gains

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on property sales and unusual items related to the Lower 48 reorganization.

Information for 1992 and 1991 has been restated to conform to 1993 formats, primarily the reclassification of allocated overhead from production and exploration costs to other operating expenses and the removal of certain unusual items previously included.

The standardized measure of discounted estimated future net cash flows related to proved oil and gas reserves at December 31, 1993, 1992 and 1991 was as follows:

Billions of dollars	Domestic	Foreign	Total
1993			
Future cash inflows	$24.4	$10.2	$34.6
Future development and production costs	16.5	3.6	20.1
Future income tax expense	2.2	2.2	4.4
Future net cash flows	5.7	4.4	10.1
10% annual discount	2.4	2.1	4.5
Standardized measure of discounted future net cash flows	$ 3.3	$ 2.3	$ 5.6
1992			
Future cash inflows	$37.3	$10.9	$48.2
Future development and production costs	20.9	4.4	25.3
Future income tax expense	5.2	2.2	7.4
Future net cash flows	11.2	4.3	15.5
10% annual discount	4.9	2.2	7.1
Standardized measure of discounted future net cash flows	$ 6.3	$ 2.1	$ 8.4
1991			
Future cash inflows	$35.7	$ 9.2	$44.9
Future development and production costs	23.1	4.2	27.3
Future income tax expense	3.6	1.7	5.3
Future net cash flows	9.0	3.3	12.3
10% annual discount	3.8	1.5	5.3
Standardized measure of discounted future net cash flows	$ 5.2	$ 1.8	$ 7.0

Primary changes in the standardized measure of discounted estimated future net cash flows for the years ended December 31, 1993, 1992 and 1991 were as follows:

Billions of dollars	1993	1992	1991
Sales and transfers of oil and gas, net of production costs	$(2.5)	$ (2.9)	$ (2.8)
Extensions, discoveries and improved recovery, less related costs	.4	1.0	.4
Revisions of estimates of reserves proved in prior years:			
Quantity estimates	—	.3	—
Net changes in price and production costs	(4.2)	2.1	(11.5)
Purchases/Sales	(.3)	(.4)	.4
Other	.1	.5	(1.6)
Accretion of discount	1.2	1.0	2.1
Development costs incurred during the period	.9	.8	1.1
Net change in income taxes	1.6	(1.0)	4.7
Net change	$(2.8)	$ 1.4	$ (7.2)

Estimated future cash inflows are computed by applying year-end prices of oil and gas to year-end quantities of proved reserves. Future price changes are considered only to the extent provided by contractual arrangements. Estimated future development and production costs are determined by estimating the expenditures to be incurred in developing and producing the proved oil and gas reserves at the end of the year, based on year-end costs and assuming continuation of existing economic conditions. Estimated future income tax expense is calculated by applying year-end statutory tax rates (adjusted for permanent differences and tax credits) to estimated future pretax net cash flows related to proved oil and gas reserves, less the tax basis of the properties involved.

These estimates are furnished and calculated in accordance with requirements of the Financial Accounting Standards Board and the SEC. Because of unpredictable variances in expenses and capital forecasts, crude oil and natural gas price changes, largely influenced and controlled by U.S. and foreign governmental actions, and the fact that the bases for such estimates vary significantly, management believes the usefulness of these projections is limited. Estimates of future net cash flows presented do not represent management's assessment of future profitability or future cash flow to ARCO. Management's investment and operating decisions are based on reserve estimates that include proved reserves prescribed by the SEC as well as probable reserves, and on different price and cost assumptions from those used here.

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It should be recognized that applying current costs and prices and a 10 percent standard discount rate does not convey absolute value. The discounted amounts arrived at are only one measure of the value of proved reserves.

Regarding the information on estimated reserve quantities and discounted future net cash flows, ARCO has no long-term supply contracts to purchase from foreign governments or any interest in equity affiliates involved in oil and gas producing activities.

Coal Operations

Supplemental operating statistics for the coal operations of ARCO for the three years ended December 31, 1993, 1992 and 1991 were as follows:

	1993	1992	1991
Coal shipments – thousand tons:			
Domestic	37,499	30,634	32,598
Foreign	10,246	9,158	8,961
Total	47,745	39,792	41,559
Coal reserves – million tons recoverable:			
Domestic	1,296	1,236	876
Foreign	214	232	242
Total	1,510	1,468	1,118
Average market price per ton of coal:			
Domestic	$ 9.12	$ 9.79	$ 9.20
Foreign	$29.69	$30.84	$32.70
Composite price	$13.53	$14.64	$14.27

The significant change to reserves in 1992 was due to the acquisition of the West Black Thunder lease acreage.

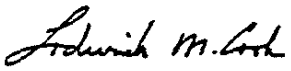
Responsibility for Financial Statements

To the Stockholders of Atlantic Richfield Company

The Corporation's management assumes responsibility for the integrity and objectivity of the financial information contained in this Annual Report, including the statements covered by the independent accountants' report. The Corporation maintains an accounting system and related controls to provide reasonable assurance of the integrity and objectivity of accounting information and for the safeguarding of assets. The fair presentation of the Corporation's financial position and results of operations, in conformity with generally accepted accounting principles, is reported on by the independent accountants.

In addition to the accounting and control systems and the use of independent accountants, the Corporation maintains a staff of internal auditors who conduct internal control audits as well as special audits, coordinating their activities with the independent accountants.

The Corporation has had an Audit Committee of the Board of Directors for more than 25 years. The Committee currently consists exclusively of directors who are not employees of the Corporation, and meets as required, but at a minimum of three times a year. The Committee has been established for the general purpose of satisfying itself as to the integrity of the Corporation's accounting and financial reporting, maintaining communications between the Board of Directors and external and internal auditors, continuously emphasizing the need for internal financial controls, and initiating special investigations as deemed necessary. The independent accountants and the internal auditors have full and free access to the Audit Committee and meet with it, with and without management being present, to discuss all appropriate matters.



Lodwrick M. Cook
Chairman of the Board and
Chief Executive Officer

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Consolidated Financial Data

Millions of dollars, except per share amounts	1993	1992	1991	1990	1989
Sales and Other Operating Revenues					
Resources:					
Oil and gas	$ 8,357	$ 8,994	$ 8,859	$ 9,425	$ 8,138
Coal	648	585	597	569	547
Products:					
Refining and marketing	8,603	8,461	7,989	8,649	6,789
Transportation	878	900	849	946	862
Intermediate chemicals and specialty products	3,192	3,100	2,990	2,950	2,663
Other	28	24	30	33	55
Elimination of intersegment amounts	(3,219)	(3,396)	(3,123)	(3,736)	(3,005)
Total	$18,487	$18,668	$18,191	$18,836	$16,049
Net Income					
Resources:					
Oil and gas	$ 45	$ 816	$ 549	$ 1,364	$ 887
Coal	107	83	33	91	92
Products:					
Refining and marketing	307	346	266	439	291
Transportation	189	239	212	274	266
Intermediate chemicals and specialty products	239	210	192	271	336
Equity earnings from					
Lyondell Petrochemical Company	13	8	111	223	214
Gain on subsidiary stock transaction	—	—	—	—	634
Unallocated expenses and other	(140)	25	(60)	(410)	(250)
Interest	(491)	(534)	(594)	(564)	(517)
Cumulative effect of changes in accounting principles	—	(392)	—	323	—
Net income	$ 269	$ 801	$ 709	$ 2,011	$ 1,953
Earned per share[a]	$ 1.66	$ 4.96	$ 4.39	$ 12.15	$ 11.26
Retained earnings	$ 5,308	$ 5,918	$ 5,990	$ 6,837	$ 5,636
Additions to Fixed Assets					
Resources:					
Oil and gas (including dry hole costs)	$ 1,383	$ 1,249	$ 1,890	$ 1,560	$ 1,309
Coal	94	308	305	109	148
Products:					
Refining and marketing	345	315	448	370	314
Transportation	59	94	124	103	43
Intermediate chemicals and specialty products	181	295	435	539	262
Other	8	17	37	37	29
Total	$ 2,070	$ 2,278	$ 3,239	$ 2,718	$ 2,105

(a) The cumulative effect of adopting SFAS 106 and SFAS 109 reduced earnings per share by $2.43 in 1992. The cumulative effect of adopting SFAS 96 increased earnings per share by $1.95 in 1990.

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SEGMENT OPERATING DATA

	1993	1992	1991	1990	1989
After-tax oil and gas earnings (millions):					
Alaska	$225	$453	$413	$ 700	$546
Lower 48	(163)	192	57	588	349
Foreign	(17)	171	79	76	(8)
Total	$ 45	$816	$549	$1,364	$887
Crude oil, condensate and NGL production (thousand barrels/day — net):					
Domestic:					
Prudhoe Bay	229.2	249.0	262.9	263.1	280.5
Kuparuk	151.5	150.8	140.3	138.4	147.1
Greater Point McIntyre	15.1	11.9	12.8	13.9	12.5
Other Alaska	—	4.0	4.3	3.4	4.3
NGLs	22.9	23.2	20.3	15.0	15.0
Total Alaska	418.7	438.9	440.6	433.8	459.4
Lower 48 — Crude oil	156.2	185.6	188.4	168.2	166.2
— NGLs	29.8	38.0	39.5	36.3	34.4
Total Domestic	604.7	660.5	668.5	638.3	660.0
Foreign:					
Indonesia	50.4	44.8	42.5	38.4	47.2
United Kingdom	13.8	16.5	15.2	10.7	9.6
Dubai	8.6	9.7	11.6	12.9	8.1
Other	1.7	2.2	1.2	.6	.9
NGLs	5.2	4.5	5.2	4.5	4.3
Total Foreign	79.7	77.7	75.7	67.1	70.1
Total	684.4	738.2	744.2	705.4	730.1
Natural gas production (million cubic feet/day — net):					
Domestic:					
Onshore	612.9	826.9	862.8	939.3	855.0
Offshore	298.0	375.0	536.0	614.3	674.0
Total Domestic	910.9	1,201.9	1,398.8	1,553.6	1,529.0
Foreign:					
United Kingdom	278.0	203.4	221.1	155.5	117.9
Indonesia	24.6	13.1	15.3	13.6	14.2
Netherlands	18.0	23.2	24.8	24.4	31.1
Colombia	—	—	—	—	6.0
Total Foreign	320.6	239.7	261.2	193.5	169.2
Total	1,231.5	1,441.6	1,660.0	1,747.1	1,698.2

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SEGMENT OPERATING DATA

	1993	1992	1991	1990	1989
[illegible] (continued)					
Average sales prices:					
Crude oil and condensate (dollars/barrel):					
Alaska	$10.38	$11.41	$11.23	$14.84	$11.71
Lower 48	$15.07	$16.34	$16.72	$20.85	$16.92
Composite average	$11.67	$12.92	$12.93	$16.56	$13.13
Foreign	$16.41	$18.17	$18.67	$20.15	$16.25
NGLs, lease and plant (dollars/barrel):					
Domestic	$11.64	$12.44	$12.86	$14.40	$10.38
Foreign	$10.84	$12.23	$11.51	$10.89	$ 6.60
Natural gas (dollars/thousand cubic feet):					
Domestic	$ 1.93	$ 1.65	$ 1.54	$ 1.66	$ 1.67
Foreign	$ 2.69	$ 2.96	$ 3.16	$ 3.08	$ 2.71
Proved oil and gas reserves — net					
Crude oil and NGLs (million barrels):					
Alaska	1,623	1,769	1,822	1,966	1,985
Lower 48	636	748	820	754	780
Foreign	206	211	189	210	237
Total	2,465	2,728	2,831	2,930	3,002
Natural gas (billion cubic feet):					
Alaska	2,191	2,284	2,369	2,367	2,486
Lower 48	2,534	2,901	3,429	3,889	3,966
Foreign	3,280	3,117	2,405	1,796	1,206
Total	8,005	8,302	8,203	8,052	7,658
Pretax exploration expense (millions):					
Alaska:					
Dry hole costs	$164	$ 56	$ 28	$ 91	$ 6
Undeveloped leasehold amortization	15	15	16	17	23
Geological and geophysical	37	17	10	20	21
Other	25	24	22	19	19
Total Alaska	241	112	76	147	69
Lower 48:					
Dry hole costs	83	96	118	108	107
Undeveloped leasehold amortization	75	88	89	90	95
Geological and geophysical	17	23	44	44	34
Other	41	63	88	92	76
Total Lower 48	216	270	339	334	312
Total Domestic	457	382	415	481	381
Foreign:					
Dry hole costs	74	69	71	100	50
Undeveloped leasehold amortization	8	7	8	6	6
Geological and geophysical	45	37	21	19	19
Other	83	72	78	45	23
Total Foreign[a]	210	185	178	170	98
Total	$667	$567	$593	$651	$479

(a) Includes $46 million, $41 million, $41 million, $25 million and $23 million of costs recovered in 1993, 1992, 1991, 1990 and 1989, respectively, under provisions of production-sharing agreements.

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	1993	1992	1991	1990	1989
[illegible] (continued)					
Net wells completed:					
Domestic:					
Exploratory — oil	7	9	8	5	4
gas	6	7	18	22	21
dry	65	70	42	48	41
Development — oil	164	124	265	225	188
gas	64	40	168	137	131
dry	21	19	175*	44	32
Foreign:					
Exploratory — oil	4	6	4	4	2
gas	4	3	2	2	1
dry	13	15	19	18	15
Development — oil	17	16	24	21	22
gas	14	6	5	3	3
dry	2	1	—	1	—
Net producing wells:					
oil	5,776	7,604	8,372	7,582	8,138
gas	1,427	1,827	1,704	2,009	1,889
Net acreage (thousand acres):					
Domestic:					
Developed	1,785	2,126	2,333	2,379	2,453
Undeveloped	5,249	6,331	6,302	6,144	5,858
Foreign:					
Developed	91	81	76	75	69
Undeveloped	22,603	26,250	29,251	17,319	16,752
COAL					
Coal shipments (thousand tons):					
Domestic	37,499	30,634	32,598	29,437	31,114
Foreign	10,246	9,158	8,961	8,819	8,333
Total	47,745	39,792	41,559	38,256	39,447
Coal reserves (million tons recoverable):					
Domestic	1,296	1,236	876	854	869
Foreign	214	232	242	411	321
Total	1,510	1,468	1,118	1,265	1,190
Average market price (dollars/ton):					
Domestic	$ 9.12	$ 9.79	$ 9.20	$ 9.45	$ 9.29
Foreign	$29.69	$30.84	$32.70	$32.70	$31.33

* Includes 132 dry development wells associated with a shallow coal bed methane gas project at a total cost of $5.5 million.

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Segment Operating Data

	1993	1992	1991	1990	1989
[illegible] Marketing					
Refinery runs (thousand barrels/day):					
Blended crude oil:					
Los Angeles, California	236.9	236.6	230.4	231.4	233.6
Cherry Point, Washington	188.9	188.5	174.5	167.2	167.3
Total	425.8	425.1	404.9	398.6	400.9
Petroleum product sales volumes, including intersegment sales (thousand barrels/day):					
Domestic:					
Gasoline	252.5	240.8	234.5	231.2	223.1
Distillate fuels	78.7	81.8	84.6	78.3	85.4
Jet fuels	97.1	104.9	95.6	88.0	84.3
Coke	15.1	16.0	17.0	14.8	13.3
Natural gas liquids	18.7	18.6	13.9	12.5	12.8
Other	19.4	17.4	20.8	19.2	16.6
Total Domestic	481.5	479.5	466.4	444.0	435.5
Foreign	94.4	92.8	97.0	92.0	93.0
Total	575.9	572.3	563.4	536.0	528.5
Domestic branded retail outlets	1,611	1,641	1,632	1,547	1,700
Transportation					
Crude pipelines* (miles)	5,500	5,500	5,500	5,700	5,700
Product and petrochemical pipelines* (miles)	2,200	2,200	2,700	3,000	3,000
TAPS throughput (thousand barrels/day)	1,620	1,747	1,822	1,789	1,880
Crude transported* (million barrel miles)	129,800	140,900	143,300	144,100	158,500
Product transported (million barrel miles)	6,700	7,200	6,100	8,500	9,500
Tankers owned or under long-term charter	10	10	10	10	10
Tonnage (thousand tons)	1,500	1,500	1,500	1,500	1,500
Intermediate Chemicals and Specialty Products					
Chemical product sales volumes, including intersegment sales (millions):					
Propylene oxide and derivatives (pounds)	3,356	3,055	2,729	2,563	2,586
TBA and derivatives (gallons)	1,164	1,092	996	955	912
Styrene monomer and derivatives (pounds)	2,084	1,434	1,278	1,098	1,478
Chemical revenues (millions)	$3,192	$3,100	$2,990	$2,950	$2,663

* Trunk lines only

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Segment Operating Data

Millions of dollars, except per share amounts	1993	1992	1991	1990	1989
Stock Data					
Dividends					
Common stock — total	$ 876	$ 870	$ 869	$ 807	$ 756
— per share	$ 5.50	$ 5.50	$ 5.50	$ 5.00	$ 4.50
Total dividends declared	$ 879	$ 873	$ 872	$ 810	$ 760
Common stock:					
Average shares outstanding, including equivalents (millions of shares)	162.4	161.5	161.7	165.5	173.4
Earned per share	$ 1.66	$ 4.96	$ 4.39	$ 12.15	$ 11.26
Book value per share	$ 38.51	$ 42.68	$ 42.95	$ 44.82	$ 39.64
Market price per share — high	127¾	121¾	135¾	142¼	114¾
— low	100½	98¼	99¼	105½	80¾
— close	105¼	114¾	106¾	123¾	111¾
Stockholders (thousands)	120	110	116	120	126
Employees, full-time equivalent (thousands):					
Resources:					
Oil and gas	7.8	8.3	10.0	10.7	10.5
Coal	1.7	1.7	1.8	1.7	1.6
Products:					
Refining and marketing	7.5	8.7	8.4	8.1	7.7
Transportation	1.6	1.6	1.7	1.8	1.6
Intermediate chemicals and specialty products	4.3	4.1	4.2	4.0	3.6
Other operations	2.2	2.4	1.6	1.5	1.9
Total	25.1	26.8	27.7	27.8	26.9
Payroll expense	$ 1,497	$ 1,478	$ 1,449	$ 1,367	$ 1,221
Financial Data					
Total assets	$23,894	$24,256	$24,492	$23,864	$22,261
Working capital	$ 1,896	$ 825	$ 125	$ 1,788	$ 1,977
Current ratio	1.44	1.17	1.02	1.42	1.58
Long-term debt	$ 7,089	$ 6,227	$ 5,989	$ 5,997	$ 5,313
Stockholders' equity	$ 6,127	$ 6,721	$ 6,832	$ 7,149	$ 6,562
Return on stockholders' equity — percent[a]	4.2	17.6	10.1	24.6	30.5
Return on capital employed — percent[b]	5.1	11.4	8.7	16.2	18.9
Research and Development Expense	$ 109	$ 89	$ 119	$ 120	$ 95

(a) Net income before accounting changes/average stockholders' equity

(b) Net income before accounting changes + after-tax interest expense/average capital employed [short-term debt + long-term debt due in 1 year + long-term debt + stockholders' equity]

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Board of Directors

Lodwrick M. Cook
Chairman of the Board and Chief Executive Officer

Mike R. Bowlin
President and Chief Operating Officer

Ronald J. Arnault
Executive Vice President and Chief Financial Officer

James A. Middleton
Executive Vice President

William E. Wade, Jr.
Executive Vice President

Frank D. Boren
President,
Sustainable Conservation

Richard H. Deininger
Chairman of the Board,
H.E.Ahmanson & Company

The Hon. John Gavin
Chairman, Gamma Services International
Former U.S. Ambassador to Mexico

Hanna H. Gray
President Emeritus and Professor of History,
University of Chicago

Philip M. Hawley
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Carter Hawley Hale Stores, Inc.

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Retired President,
ARCO

Kent Kresa
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President,
Occidental College

Hicks B. Waldron
Former Chairman of the Board,
Avon Products, Inc.

Henry Wendt
Chairman of the Board,
SmithKline Beecham

Board Committees
[a]Executive
[b]Compensation
[c]Environment, Health and Safety
[d]Audit
[e]Nominating

Officers

Lodwrick M. Cook
Chairman of the Board and Chief Executive Officer

Mike R. Bowlin
President and Chief Operating Officer

Ronald J. Arnault
Executive Vice President and Chief Financial Officer

James A. Middleton
Executive Vice President

William E. Wade, Jr.
Executive Vice President

H. L. Belnartz
Senior Vice President
President, ARCO Alaska, Inc.

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Senior Vice President

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Terry G. Dallas
Vice President and Treasurer

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Allen C. Holmes
Vice President and General Tax Officer

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Vice President, Exploration and Production Technology

Robert J. Trunek
Vice President, Environment, Health and Safety

Howard L. Edwards
Corporate Secretary

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Market Price and Dividend Data for Voting Securities by Quarter

	1993				1992			
	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]								
Market Price Per Share—High	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Low	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Cash Dividends Per Share	$1.375	$1.375	$1.375	$1.375	$1.375	$1.375	$1.375	$1.375
$3.00 Convertible Preference Stock:								
Market Price Per Share—High	749 [illegible]	780	834	[illegible]	822	743	762	[illegible]
Low	730	760	806	745	714	726 [illegible]	716	680
Cash Dividends Per Share	$ 0.75	$ 0.75	$ 0.75	$ 0.75	$ 0.75	$ 0.75	$ 0.75	$ 0.75
$2.80 Convertible Preference Stock:								
Market Price Per Share—High	275 [illegible]	279 [illegible]	302 [illegible]	287	287	290 [illegible]	281 [illegible]	[illegible]
Low	245	262 [illegible]	277	260 [illegible]	252	259 [illegible]	235 [illegible]	236
Cash Dividends Per Share	$ 0.70	$ 0.70	$ 0.70	$ 0.70	$ 0.70	$ 0.70	$ 0.70	$ 0.70

Stock Exchanges

Atlantic Richfield Common Stock (ARC) is listed on the New York, Pacific, London, Basel, Geneva and Zurich stock exchanges. The $2.80 Preference Stock and the $3.00 Preference Stock are listed on the New York and Pacific stock exchanges.

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Recycling

Recycled paper has become a standard for most ARCO publications. The entire 1993 Annual Report was printed on recycled paper.

Annual Meeting

The Annual Meeting of Stockholders will be held on May 2, 1994, beginning at 10 a.m. in the Grande Ballroom, Sheraton Grande Hotel, 333 South Figueroa Street, Los Angeles, California. Notices of the meeting, proxy statements and proxy cards will be mailed to stockholders in advance of the meeting.

Information

Communications regarding stock accounts, dividends, dividend reinvestments or change of address should be directed to:
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of New York
P.O. Box 2500
Jersey City, NJ 07303-2500
(800) 446-2617

For information about ARCO, including a copy of the Form 10-K, as filed with the Securities and Exchange Commission, write to:
ARCO/Investor Relations
515 South Flower Street
Los Angeles, California
90071-2256

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